Original

Regional One Health Imaging, LLC

CN1406-024

CERTIFICATE OF NEED APPLICATION

for

Establishment of an

Outpatient Diagnostic Center

by

Regional One Health Imaging, LLC
6555 Quince Road
Memphis (Shelby County), Tennessee 38119

STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
502 Deaderick Street
9th Floor
Nashville, Tennessee 37243
615/741-2364

FILING DATE: June 13, 2014

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SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency or Institution

Regional One Health Imaging, LLC
Name

6555 Quince Road — Shelby
Street or Route — County

Memphis, — TN — 38119
City — State — Zip Code

2. Contact Person Available for Responses to Questions

E. Graham Baker, Jr. — Attorney
Name — Title

Anderson & Baker — graham@grahambaker.net
Company Name — e-mail address

2021 Richard Jones Road, Suite 120 — Nashville, — TN — 37215
Street or Route — City — State — Zip Code

Attorney — 615/370-3380 — 615/221-0080
Association with Owner — Phone Number — Fax Number

3. Owner of the Facility, Agency, or Institution

Shelby County Health Care Corporation, d/b/a Regional One Health — 901/545-7928
Name — Phone Number

877 Jefferson Avenue — Shelby
Street or Route — County

Memphis, — TN — 38103
City — State — Zip Code

4. Type of Ownership of Control (Check One)

A.	Sole Proprietorship	____	F.	Governmental (State of Tenn. or Political Subdivision)	____
B.	Partnership	____	G.	Joint Venture	____
C.	Limited Partnership	____	H.	Limited Liability Company	X
D.	Corporation (For-Profit)	____	I.	Other (Specify)	____
E.	Corporation (Not-for-Profit)	____		_____	

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.4.*

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.***

Section A, Item 1: Facility Name must be applicant facility's name and address must be the site of the proposed project.

Response: The Applicant is Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119. The Applicant is a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health.

Section A, Item 3: Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

Response: The requested documents for the Applicant are included in the application as *Attachment A.4.*

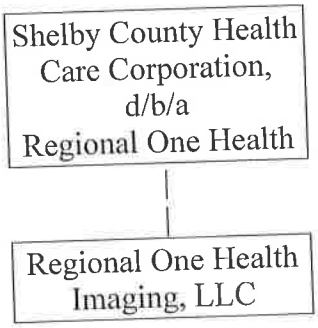
Section A, Item 4: Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

Response: The Applicant is Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119. See *Attachment A.4*. The Applicant is a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health. See *Attachments A.4.1 and A.4.2.*

Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), is a 501(c)3 non-profit corporation, chartered in 1981, the purpose of which is to "...provide a hospital that will be available to Shelby County residents who are in need, regardless of their financial status ...." (*July1, 1981 Lease Agreement between Shelby County Health Care Corporation and Shelby County, Tennessee*).

The Owner owns its hospital at 877 Jefferson Avenue, Memphis (Shelby County), Tennessee. The Applicant does not own any other health care institutions as defined above.

See the following chart:



Section A, Item 5: For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

Response: The Applicant will be self-managed. However, it is considering the possibility of hiring a management entity for the Outpatient Diagnostic Center ("ODC") which specializes in managing ODCs. However, no decisions have been made either to have an outside management company, or if so, which one. With that said, Regional One Health Imaging, LLC is furnishing a draft management contract as *Attachment A.5*, which contract would serve as a basis for developing such a contract in the future, if necessary. In addition, the Projected Data Chart for the outpatient includes an expense of $111,366 and $126,439 in Years 1 and 2, respectively, which is thought to be a reasonable amount for such a contract if executed. Obviously, if Regional One Health Imaging, LLC decides to self-manage the ODC, this expense would be absorbed in personnel salary costs.

Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: The Applicant will be located on a 6.002 acre site in Memphis. The site is owned by Regional One RH MOB 1 SPE, LLC, which is 50% owned by Shelby County Health Care Corporation, and includes an existing Medical Office Building ("MOB"). The entire site (land and building) has been leased to Shelby County Health Care Corporation (See *Attachment A.6*). Shelby County Health Care Corporation, in turn, will sub-lease (See *Attachment A.6.1*) approximately 4,587 GSF for the ODC only. The common area factor of 1.150 is then multiplied by the number of GSF in the ODC to arrive at 5,275 GSF that will be leased in the building.

The Fair Market Value ("FMV") of the leased space is $1,151,532.50, and the lease cost will be $1,392,600. Therefore, the lease value will be used in the Project Costs Chart.

The owner of the property has approved the sublease to the Applicant (see *Attachment A.6.2*).

The build out costs for the ODC will be shared by the Landlord and the Applicant. The Applicant will pay $249,000 toward the build out costs for the ODC, which amount is included in the Project Costs Chart.

5. Name of Management/Operating Entity (If Applicable)

Please see Note on Page 5
Name

Street or Route

County

City

State

Zip Code

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. Please see *Attachment A.5.*

6. Legal Interest in the Site of the Institution (Check One)

A.	Ownership	____	D.	Option to Lease	____
B.	Option to Purchase	____	E.	Other (Specify)	
C.	Lease of __X__ Years	__11__		_____	____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.6.1.*

7. Type of Institution (Check as appropriate--more than one response may apply.)

A.	Hospital	____	I.	Nursing Home	____
B.	Ambulatory Surgical Treatment Center (Multi-Specialty)	____	J.	Outpatient Diagnostic Center	__X__
C.	ASTC	____	K.	Recuperation Center	____
D.	Home Health Agency	____	L.	Rehabilitation Facility	____
E.	Hospice	____	M.	Residential Hospice	____
F.	Mental Health Hospital	____	N.	Non-Residential Methadone Facility	____
G.	Mental Health Residential Treatment Facility	____	O.	Birthing Center	____
H.	Mental Retardation Institutional Habilitation Facility (ICF/MR)	____	P.	Other Outpatient Facility (Specify) _____	____
			Q.	Other (Specify) _____	____

8. Purpose of Review (Check as appropriate--more than one response may apply.)

A.	New Institution	__X__	H.	Change In Bed Complement (Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation)	____
B.	Replacement/Existing Facility	____			
C.	Modification/Existing Facility	____			
D.	Initiation of Health Care Service as defined in TCA §68-11-1607(4)	__X__			
E.	Specify: establish ODC/MRI, CT, Mammography, X-ray/fluoroscopy & Ultrasound services	__X__	I.	Change of Location	____
F.	Discontinuance of OB Services	____	J.	Other (Specify) _____	____
G.	Acquisition of Equipment	____		_____	____

9. **Bed Complement Data**

Please indicate current and proposed distribution and certification of facility beds.

Response: Not Applicable.

	Current Beds Licensed	Current Beds CON*	Staffed Beds	Beds Proposed	TOTAL Beds at Completion
A. Medical					
B. Surgical (Orthopedic)					
C. Long-Term Care Hospital					
D Obstetrical					
E. ICU/CCU					
F. Neonatal					
G. Pediatric					
H. Adult Psychiatric					
I. Geriatric Psychiatric					
J. Child/Adolescent Psychiatric					
K. Rehabilitation					
L. Nursing Facility (non-Medicaid Certified)					
M. Nursing Facility Level 1 (Medicaid only)					
N. Nursing Facility Level 2 (Medicare only)					
O. Nursing Facility Level 2 (dually-certified)					
P. ICF/MR					
Q. Adult Chemical Dependency					
R. Child & Adolescent Chemical Dependency					
S. Swing Beds					
T. Mental Health Residential Treatment					
U. Residential Hospice					
TOTAL					

* CON Beds approved but not yet in service

10. **Medicare Provider Number Certification Type** will be applied for Outpatient Diagnostic Center

11. **Medicaid Provider Number Certification Type** will be applied for Outpatient Diagnostic Center

12. **If this is a new facility, will certification be sought for Medicare and/or Medicaid?**

Response: This is a new facility, and certification for both Medicare and Medicaid will be sought.

13. ***Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area.*** **Will this project involve the treatment of TennCare participants? Yes If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted *or plans to contract.* *Discuss any out-of-network relationships in place with MCOs/BHOs in the area.***

Response: Regional One Health has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. The Applicant, as a wholly-owned subsidiary, will pursue the same contracts.

The Applicant will contract with any new MCOs that provide services in the area.

Attachment A.13 shows the grand divisions of the State of Tennessee, by MCO coverage.

NOTE: ***Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.***

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner" or "Hospital"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center ("ODC"), including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be $5,345,900.28, including filing fee. It is important to note that $4,516,549 of this amount will be lease costs, which are operational costs. Therefore, the only front-end costs required to implement this project will be only $817,350.00.

As just stated, the Applicant requests permission to establish an ODC, including the initiation of MRI services. Other services planned for the ODC include CT, Mammography, X-ray/fluoroscopy, and Ultrasound services. The ODC will be located on the first floor of an existing medical office building ("MOB") located on Quince Road in the East Memphis area.

The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from

31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

The Landlord and the Applicant will share in the costs necessary to renovate the existing space. The Applicant's portion of that cost will be $249,000. The Applicant has already incurred legal, administrative and consultant costs of approximately $50,000, and fixed equipment (but not diagnostic equipment) will cost an additional $518,350. The ODC will be located in a 4,587 GSF space, but common area allowances increase the amount of leased space to 5,275 GSF. The lease cost for the space ($1,392,600) exceeds the fair market value ("FMV") of the space (or, $1,151,532.50), to the higher lease cost is used in the Project Costs Chart. Diagnostic equipment (MRI, CT, Mammography, X-ray/Fluoroscopy, and Ultrasound equipment) will be leased. The purchase costs ($2,115,948.79) exceed the lease costs ($2,106,000.00) for the equipment, so the higher purchase cost for the equipment is used in the Project Costs Chart. Please note that equipment maintenance costs (included in the Project Costs Chart) are free in Year 1, but start up in the 2nd and succeeding years. Therefore, the Projected Data Chart will show more expenses in Year 2. Even so, we anticipate positive cash flow.

We anticipate having only 6 staff initially, including 1 administrator, 2 reception/intake personnel, and 4 equipment technicians. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

A. Describe the construction, modification and/or renovation of the facility (exclusive of major Medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of $5 million) and other facility projects (construction cost in excess of $2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

Response: Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner" or "Hospital"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center ("ODC"), including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be $5,345,900.28, including filing fee. It is important to note that $4,516,549 of this amount will be lease costs, which are operational costs. Therefore, the only front-end costs required to implement this project will be only $817,350.00.

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The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital

already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

Anticipated utilization at the ODC will be as follows:

Outpatient Procedure	Year 1	Year 2
MRI	2,363	2,611
C-Arm	508	637
CT	1,545	2,237
Plain Films	2,134	2,494
Fluoro - GI	508	611
Fluoro Myelo	254	368
Mammography (Digital)	2,748	2,985
Ultrasound	1,503	1,879
Bone Density	1,016	1,273
Total Volume	**12,579**	**15,095**

The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

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We anticipate having only 6 staff initially, including 1 administrator, 2 reception/intake personnel, and 4 equipment technicians. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

From a historical standpoint, the Hospital traces its roots to the City of Memphis Hospital, built in 1936, consisting primarily of open wards for inpatient beds. Through the years, additions have been made to the campus as more demands were placed on the hospital and more services were offered. That original building, renamed the John Gaston Building, no longer exists. The City of Memphis transferred ownership of the hospital to Shelby County, and in around 1983/84 the hospital started doing business as Regional Medical Center at Memphis/The MED. Today, Regional One Health is licensed for 631 hospital beds plus 20 SNF beds, and serves as a regional medical center for patients not only from Shelby County, but from an additional 30 Tennessee Counties and 10 other states.

From a historical point of view, the Applicant has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services at the facility. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of Regional One Health. This CON project is the next phase of planned improvements to the campus and in outpatient settings in an effort to further improve both the quality of services being provided to our patients and our physical plant. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors.

See *Attachment B.II.A.1* for a chart showing MRI utilization in Shelby County, 2010 – 2012. *Attachment B.II.A.2* shows CT utilization, and *Attachment B.II.A.3* shows the top 10 anticipated CPT codes for both MRI and CT at our ODC.

Please note that the 2012 JAR reported incorrect information on MRI utilization at the Hospital. The correct number of MRI procedures that should have been reported is 4,491. That correct number was given to the HSDA for equipment utilization, and that number is being utilized within this application.

This project is financially feasible, based on cost information gathered by the HSDA for hospital projects between 2009 and 2011, as seen in the next chart:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	$125.84/sq ft	$235.86/sq ft	$167.99/sq ft

Median	$177.60/sq ft	$274.63/sq ft	$249.32/sq ft
3rd Quartile	$273.69/sq ft	$324.00/sq ft	$301.74/sq ft

Source: CON approved applications for years 2009 through 2011

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response: Not applicable, as no beds are involved in this project.

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. **Magnetic Resonance Imaging (MRI)**
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20 Rehabilitation Services
21. Swing Beds

Response: Magnetic Resonance Imaging (MRI): The Hospital currently operates an MRI on its campus on Jefferson Street. As reported, the Hospital also has the third most active Trauma Center in the United States. As a trauma center, it is understandable that hospital resources, especially diagnostic services, are utilized to the maximum. The current MRI utilization has increased as follows:

2011 3,927 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Another MRI is needed to offset this high utilization. The issue is where to locate that second MRI.

Following is a summary of the process followed in arriving at the need for another MRI, and the fact that it is most advantageous to place that additional unit in an outpatient setting:

ODC AT KIRBY BUILDING – SUMMARY

Overall Program Description:

- Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is

envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

Types of Diagnostic Imaging Tests to be offered by the ODC include:

- Magnetic Resonance Imaging (MRI)
- Computed Tomography (CT)
- Bone Densitometry
- Ultrasound
- Digital Mammography
- Flouroscopy
- X-ray

The Need for MRI:

- ***Regional One is already exceeding HSDA guidelines for maximum operating capacity on its one MRI Unit.*** The one MRI unit located at the Hospital is used for Inpatient, Emergency Department, Trauma Center, and Outpatient Care. As shown in the table below, for the past 4 fiscal years, Regional One not only has exceeded HSDA criteria for "Operational Efficiency" of one MRI unit, but also has exceeded what HSDA has defined as capacity of one machine. In FY2013 alone, the Regional Medical Center's volumes exceeded optimal operational efficiency by almost 1,900 procedures.

	MRI Procedures			
	FY10	FY11	FY12	FY13
Number of Procedures at ROHS (one machine)	3,882	4,412	4,491	4,766
% Change over Prior Year		14%	2%	6%
HSDA Criteria for "Operational Efficiency"	2,880	2,880	2,880	2,880
Number of Procedures Exceeding "Operational Efficiency	1,002	1,532	1,611	1,886
HSDA Criteria for MRI Capacity	3,600	3,600	3,600	3,600
Number of Actual Procedures Exceeding HSDA Maximum Capacity Level	282	812	891	1,166
"No Shows" Estimated at 15% *	582	662	674	715
Assume 50% of "No Shows" Would Have Used ROHS If Scheduling had not been a barrier	291	331	337	357
Assume 5% of Patients Referred For MRI Never Made An Appointment Due to Long Wait List	388	441	449	477
TOTAL of "Excess," "No Shows" and "Never Scheduled"	961	1,584	1,677	2,000

- ***Outpatients are differentially affected by these exceedingly high volumes, experiencing waits of two weeks or more in scheduling an MRI.*** With a priority use of the existing Hospital MRI unit for inpatients and emergency department patients, the waiting time to schedule an Outpatient MRI is at least two weeks. As the State's trauma center for West Tennessee, Regional One's MRI is utilized to maximum capacity and, when necessary a trauma patient can bump a long-scheduled, elective Outpatient MRI. Regional One's Inpatients are sicker than the general hospital population, further increasing the demands on one MRI unit.

- ***MRI scheduling wait time is a barrier to access for Outpatients and a challenge to maintain continuity of care.*** A recent analysis conducted by Regional One's Radiology Department indicates that excessive scheduling wait times have contributed to a high "no show" rate. In 2012 and, again in 2013, 15% of MRIs scheduled were "no shows." Those Regional One patients who are seeking care elsewhere experience a break in continuity of care. On the other hand, if those patients do not seek care elsewhere, they are not receiving the care they need. Either way, the analysis reveals that a second MRI is needed.

- ***TennCare patients have been particularly hampered in scheduling at the Regional Medical Center.*** The Hospital estimates that, in 2013, more than 300 TennCare patients were "no-shows" for MRI procedures. Further, based on the long waits in scheduling an MRI at the Hospital, the suppressed demand from our TennCare patients referred by our Regional One physicians may be more than double that number when those referred by our physicians for care are deterred from scheduling their MRIs at the Hospital because of long waits.

- We do not know whether these Regional One TennCare patients ("No-Shows" and "Referred but not scheduled") have gone elsewhere or whether they did not receive the care that was prescribed by their physician. Either way, this suppressed demand is both a break in the continuity of care rendered by Regional One and an access issue.

- We would expect that with the convenience in scheduling, ease of travel to this location, parking at the door, and other amenities provided at the Kirby Building, Regional One Health Imaging, LLC should be able to recover this suppressed demand in the TennCare and other populations we serve, thereby improving the medical management of our patients' health care.

- ***Self-Pay patients have limited choice in Shelby County and have been differentially exposed to scheduling waits.*** In addition to "no shows," we also have observed that many patients when faced with too long waits for appointments, never follow-up on their care at all. Patients with resources have choices. Regional One Health, as the County Healthcare Facility, is the only choice available to elective self-pay patients.

- ***There is a need to provide for market growth and the projected increased use of the modality***.
    - Market growth for Outpatient MRI between 2012 and 2022 is projected by the Health Care Advisory Board to be 24% -- a compound growth rate of more than 2% per year
    - Current MRI units (41) reported to HSDA 108,456 total procedures in 2012. This results in an average utilization per machine of 2,645 in 2012, just under HSDA's optimal operational efficiency standard of 2,880 procedures per unit. Applying the compound annual growth rate of approximately 2.2% per year projected by the HealthCare Advisory Board for the Memphis East market, the MRIs now in the market will be operating at an

average of 2,823 procedures by the year 2015 when Regional One Health Imaging opens its facility.

- Other considerations: 1) MRI is supplanting Nuclear Medicine and x-ray as the imaging modality of choice for certain conditions; 2) Increasing population of aged individuals drives increased imaging; and 3) New screening options also drive volumes

► ***VOLUME PROJECTIONS FOR REGIONAL ONE IMAGING – AT KIRBY***

Anticipated utilization at the ODC will be as follows:

Outpatient Procedure	**Year 1**	**Year 2**
MRI	2,363	2,611
C-Arm	508	637
CT	1,545	2,237
Plain Films	2,134	2,494
Fluoro - GI	508	611
Fluoro Myelo	254	368
Mammography (Digital)	2,748	2,985
Ultrasound	1,503	1,879
Bone Density	1,016	1,273
Total Volume	**12,579**	**15,095**

Why An ODC With MRI at Kirby:

► ***Responsive service to existing patients is the primary goal:*** – To achieve this, Regional One is focused on:

- **Timely Access**: Adding and dedicating an MRI to Outpatients facilitates prompt scheduling
- **Convenience in Location**: Approximately XX% of Regional One's PSA population reside within a 20-Minute Drive-Time from Kirby. In addition, Kirby is close for SSA-East. More stats re: rest of service area including SSA-East
- **Ease of Access Once Arrived**: Getting downtown to the Regional Medical Center can be a frustrating experience. Once one arrives at the Medical Center, parking and walking time to get through the large downtown campus complex to get to Imaging can take another 15 minutes. Ample parking will be provided at the Kirby Building with convenient and quick access to the entryway of the building. Further, a covered porte cochere will be available for patient drop-off, further speeding access.

D. Describe the need to change location or replace an existing facility.

Response: N/A.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

a. Describe the new equipment, including:

1. Total cost; (As defined by Agency Rule).
2. Expected useful life;
3. List of clinical applications to be provided; and
4. Documentation of FDA approval.

Response:

	Equipment	Purchase Price	Term (Mos)	Monthly Payment	Total Cost
MRI	Optima MR 450w	$1,069,686.95	84	$13,100.00	1,100,400
CT	Goldseal Brightspeed Elite 16	$306,350.99	60	$5,000.00	300,000
Mammo	Senographe Care	$280,910.85	60	$4,500.00	270,000
X-Ray	Goldseal Precision 500D	$315,000.00	60	$5,100.00	306,000
U/S	Logiq E9	$144,000.00	36	$3,600.00	129,600
	Package Pricing	**$2,115,948.79**		**$18,200.00**	**2,106,000**

The expected useful life of the above equipment is 7 to 10 years.

Attachment B.II.E.1 is documentation from the manufacturer and from the FDA regarding the certified MRI equipment.

b. Provide current and proposed schedules of operations.

Response: The anticipated hours of operation of the ODC are from 7 a.m. to 5 p.m., Mon – Fri. If demand exceeds this schedule, we will extend our hours of operation.

2. For mobile major medical equipment:
a. List all sites that will be served;

b. Provide current and/or proposed schedule of operations;
c. Provide the lease or contract cost.
d. Provide the fair market value of the equipment; and
e. List the owner for the equipment.

Response: N/A.

3. Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response: The Applicant will lease the above-listed diagnostic equipment. *Attachment B.II.E.3* is a quote from the leasing vendor.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:

1. **Size of site (*in acres*)**
2. **Location of structure on the site; and**
3. **Location of the proposed construction.**
4. **Names of streets, roads or highway that cross or border the site.**

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The size of the medical complex approximates 6.002 Acres. Please see attached plot plan (*Attachment B.III.A*).

2. Please see *Attachment B.III.A.* This attachment indicates the location of the existing building on the site.

3. There is no proposed construction, as normally intimated by this question, as the space already exists. There will be a build out for the ODC, as previously explained.

4. *Attachment B.III.A* shows that the site is bounded by Quince Road and Nonconnah Parkway. Quince Road intersects with Kirby Road (a major north/south thoroughfare), which intersects with Nonconnah Parkway (a major east/west thoroughfare), which intersects with I-240. The site is readily accessible to patients, family members, and other health care providers.

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: *Attachment B.III.A* shows that the site is bounded by Quince Road and Nonconnah Parkway. Quince Road intersects with Kirby Road (a major north/south thoroughfare), which intersects with Nonconnah Parkway (a major east/west thoroughfare), which intersects with I-240. The site is readily accessible to patients, family members, and other health care providers.

IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.

NOTE: *DO NOT SUBMIT BLUEPRINTS*. Simple line drawings should be submitted and need not be drawn to scale.

Response: Please see *Attachment B.IV* for a footprint of the ODC, which will be located on the ground floor of the existing MOB. In addition to administrative (office, reception, registration, waiting room), staff, and equipment areas, there will be separate rooms for MRI, CT, Fluoroscopy, Mammography, and Ultrasound.

V. **For a Home Health Agency or Hospice, identify:**

1. **Existing service area by County;**
2. **Proposed service area by County;**
3. **A parent or primary service provider;**
4. **Existing branches; and**
5. **Proposed branches.**

Response: N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (N/A)."

QUESTIONS

NEED

1. **Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.**

   a. **Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.**

Response: Please see *Attachment ODC* and *Attachment MRI.*

Further, the State Health Plan lists the following Five Principles for Achieving Better Health, and are based on the Division's enacting legislation:

1. **The purpose of the State Health Plan is to improve the health of Tennesseans;**

Regional One Health has been serving patients since 1936, and continues to this day. Many changes have been made at the hospital, and more are planned, including this project by its wholly-owned subsidiary, Regional One Health Imaging, LLC. Regional One Health's goals are consistent with the State Health Plan, and this project will improve the health of Tennesseans.

2. **Every citizen should have reasonable access to health care;**

Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant.

3. **The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;**

The development of services at Regional One Health has always been the result of attempts to meet the needs of Tennesseans. In today's competitive market, patients are drawn to more modern and convenient facilities. This project will result in improvement of services and enhance the convenience of the patients we serve. Therefore, the approval of this application will enhance the "development" of health care services in the proposed service area.

4. **Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and**

Tennessee is fortunate to have an excellent licensing division of the Department of Health. The Board of Licensing Health Care Facilities provides standards for and monitoring of licensed health care providers. This Applicant's Owner is fully licensed by the Department of Health and is certified by Medicare, Medicaid (TennCare), the Joint Commission on Accreditation of Healthcare Organizations (JCAHO, most recent survey 06/08/2011), and the Commission on Accreditation of Rehabilitation Facilities (CARF, most recent survey 11/01/2009). The Applicant will pursue similar certifications and appropriate accreditation from the American College of Radiology (ACR).

5. **The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

The Applicant is committed to providing safe working conditions for its staff and continuing education to its staff. Regional One Health serves as a clinical rotation site for the UT Schools of Medicine and Nursing and other Allied Health Professional Schools. Regional One Health is a member of THA, AHA, TNPath, and NAPH. The Applicant, as a wholly-owned subsidiary of Regional One Health, will participate in such staff training to the greatest extent possible.

b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response: N/A.

2. **Describe the relationship of this project to the applicant facility's long-range development plans, if any.**

Response: From a historical point of view, the Hospital has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services provided by the Hospital. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of Regional One Health. This CON project is the next phase of planned improvements by the Hospital, through the Applicant, to further improve both the quality of services being provided to our patients, and enhance the convenience of patients we serve. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors.

3. **Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

Please see *Attachment C.Need.3* for a map of the service area.

4. A. Describe the demographics of the population to be served by this proposal.

Response: Our proposed service area is Shelby County. The projected population for the next 4 years, according to the TN Department of Health, is as follows:

2015	946,559
2016	949,178
2017	951,669
2018	954,012

In addition, U.S. Census Bureau data for the U.S., State and Shelby County is supplied as *Attachment C.Need.4.A.* This attachment shows that whereas 13.4% of the 2010 Tennessee population was over 65, only 10.4% of Shelby County population was aged. Per capita annual income in Shelby County was $25,002 from 2006 - 2010, whereas Tennessee had an average per capita income of $23,722 for the same reporting period. Median household income for 2006 – 2010 for Shelby County totaled $44,705, and comparable income for the State was $43,314. Finally, 16.5% of Tennesseans live below the poverty level, whereas 19.7% of Shelby County residents live below the poverty level.

See chart below:

Selected Demographic Estimates for Shelby County/Tennessee
(Source: U.S. Census Quickfacts)

Demographics	Shelby Co.	Tennessee	U.S.
65+	10.4%	13.4%	13.0%
Per Capita $	$25,002	$23,722	$27,334
Household $	$44,705	$43,314	$51,914
Below Pov. Lvl	19.7%	16.5%	13.8%
Pop/Sq. Mile	1,216	153.9	87.4
Home Owners	61.7%	69.6%	66.6%
White	43.6%	77.6%	72.4%
Black	52.3%	16.7%	12.6%

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: According to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, the previous chart shows that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: Historic MRI and CT utilization is shown in *Attachments B.II.A.1 and B.II.A.2*.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: The current MRI utilization has increased as follows:

2011 3,927 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Response: Magnetic Resonance Imaging (MRI): The Hospital currently operates an MRI on its campus on Jefferson Street. As reported, the Hospital also has the third most active Trauma Center in the United States. As a trauma center, it is understandable that hospital resources, especially diagnostic services, are utilized to the maximum. The current MRI utilization has increased as follows:

2011 3,927 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Another MRI is needed to offset this high utilization. The issue is where to locate that second MRI.

Following is a summary of the process followed in arriving at the need for another MRI, and the fact that it is most advantageous to place that additional unit in an outpatient setting:

ODC AT KIRBY BUILDING – SUMMARY

Overall Program Description:

- Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

Types of Diagnostic Imaging Tests to be offered by the ODC include:

- Magnetic Resonance Imaging (MRI)
- Computed Tomography (CT)
- Bone Densitometry
- Ultrasound
- Digital Mammography
- Flouroscopy
- X-ray

The Need for MRI:

- ***Regional One is already exceeding HSDA guidelines for maximum operating capacity on its one MRI Unit.*** The one MRI unit located at the Hospital is used for Inpatient, Emergency Department, Trauma Center, and Outpatient Care. As shown in the table below, for the past 4 fiscal years, Regional One not only has exceeded HSDA criteria for "Operational Efficiency" of one MRI unit, but also has exceeded what HSDA has defined as capacity of one machine. In FY2013 alone, the Regional Medical Center's volumes exceeded optimal operational efficiency by almost 1,900 procedures.

	MRI Procedures			
	FY10	FY11	FY12	FY13
Number of Procedures at ROHS (one machine)	3,882	4,412	4,491	4,766
% Change over Prior Year		14%	2%	6%
HSDA Criteria for "Operational Efficiency"	2,880	2,880	2,880	2,880
Number of Procedures Exceeding "Operational Efficiency	1,002	1,532	1,611	1,886
HSDA Criteria for MRI Capacity	3,600	3,600	3,600	3,600
Number of Actual Procedures Exceeding HSDA Maximum Capacity Level	282	812	891	1,166
"No Shows" Estimated at 15% *	582	662	674	715
Assume 50% of "No Shows" Would Have Used ROHS If Scheduling had not been a barrier	291	331	337	357
Assume 5% of Patients Referred For MRI Never Made An Appointment Due to Long Wait List	388	441	449	477
TOTAL of "Excess," "No Shows" and "Never Scheduled"	961	1,584	1,677	2,000

- ***Outpatients are differentially affected by these exceedingly high volumes, experiencing waits of two weeks or more in scheduling an MRI.*** With a priority use of the existing Hospital MRI unit for inpatients and emergency department patients, the waiting time to schedule an Outpatient MRI is at least two weeks. As the State's trauma center for West Tennessee, Regional One's MRI is utilized to maximum capacity and, when necessary a trauma patient can bump a long-scheduled, elective Outpatient MRI. Regional One's Inpatients are sicker than the general hospital population, further increasing the demands on one MRI unit.

- ***MRI scheduling wait time is a barrier to access for Outpatients and a challenge to maintain continuity of care.*** A recent analysis conducted by Regional One's Radiology Department indicates that excessive scheduling wait times have contributed to a high "no show" rate. In 2012 and, again in 2013, 15% of MRIs scheduled were "no shows." Those Regional One patients who are seeking care elsewhere experience a break in continuity of care. On the other hand, if those patients do not seek care elsewhere, they are not receiving the care they need. Either way, the analysis reveals that a second MRI is needed.

- ***TennCare patients have been particularly hampered in scheduling at the Regional Medical Center.*** The Hospital estimates that, in 2013, more than 300 TennCare patients were "no-shows" for MRI procedures. Further, based on the long waits in scheduling an MRI at the Hospital, the suppressed demand from our TennCare patients referred by our Regional One physicians may be more than double that number when those referred by our physicians for care are deterred from scheduling their MRIs at the Hospital because of long waits.

- We do not know whether these Regional One TennCare patients ("No-Shows" and "Referred but not scheduled") have gone elsewhere or whether they did not receive the care that was prescribed by their physician. Either way, this suppressed demand is both a break in the continuity of care rendered by Regional One and an access issue.

- We would expect that with the convenience in scheduling, ease of travel to this location, parking at the door, and other amenities provided at the Kirby Building, Regional One Health Imaging, LLC should be able to recover this suppressed demand in the TennCare and other populations we serve, thereby improving the medical management of our patients' health care.

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- ***There is a need to provide for market growth and the projected increased use of the modality.***
    - Market growth for Outpatient MRI between 2012 and 2022 is projected by the Health Care Advisory Board to be 24% -- a compound growth rate of more than 2% per year
    - Current MRI units (41) reported to HSDA 108,456 total procedures in 2012. This results in an average utilization per machine of 2,645 in 2012, just under HSDA's optimal operational efficiency standard of 2,880 procedures per unit. Applying the compound annual growth rate of approximately 2.2% per year projected by the HealthCare Advisory Board for the Memphis East market, the MRIs now in the market will be operating at an

average of 2,823 procedures by the year 2015 when Regional One Health Imaging opens its facility.

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► ***VOLUME PROJECTIONS FOR REGIONAL ONE IMAGING – AT KIRBY***

Anticipated utilization at the ODC will be as follows:

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Ultrasound	1,503	1,879
Bone Density	1,016	1,273
Total Volume	**12,579**	**15,095**

Why An ODC With MRI at Kirby:

► ***Responsive service to existing patients is the primary goal:*** – To achieve this, Regional One is focused on:

- **Timely Access**: Adding and dedicating an MRI to Outpatients facilitates prompt scheduling
- **Convenience in Location**: Approximately XX% of Regional One's PSA population reside within a 20-Minute Drive-Time from Kirby. In addition, Kirby is close for SSA-East. More stats re: rest of service area including SSA-East
- **Ease of Access Once Arrived**: Getting downtown to the Regional Medical Center can be a frustrating experience. Once one arrives at the Medical Center, parking and walking time to get through the large downtown campus complex to get to Imaging can take another 15 minutes. Ample parking will be provided at the Kirby Building with convenient and quick access to the entryway of the building. Further, a covered porte cochere will be available for patient drop-off, further speeding access.

ECONOMIC FEASIBILITY

1. **Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.**

-- **All projects should have a project cost of at least $3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)**

-- **The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.**

-- **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

-- **For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.**

Response: The Project Costs Chart is completed. Approximately 4,587 GSF will be renovated, and adding the common area factor, a total of 5,275 GSF will be leased. The Applicant's renovation costs of $249,000, divided by the GSF of the ODC (4,587) equals approximately $54.29 per GSF.

This project is financially feasible, based on cost information gathered by the HSDA for hospital projects between 2009 and 2011, as seen in the next chart:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	$125.84/sq ft	$235.86/sq ft	$167.99/sq ft
Median	$177.60/sq ft	$274.63/sq ft	$249.32/sq ft
3rd Quartile	$273.69/sq ft	$324.00/sq ft	$301.74/sq ft

Source: CON approved applications for years 2009 through 2011

Please see *Attachment C.EF.1*, which is a letter from the Project Manager for this project.

PROJECT COSTS CHART

A. Construction and equipment acquired by purchase.

1.	Architectural and Engineering Fees	$
2.	Legal, Administrative (Excluding CON Filing Fee), Consultant	50,000
3.	Acquisition of Site	
4.	Preparation of Site	
5.	Construction Costs (build out of existing space)	249,000
6.	Contingency Fund	
7.	Fixed Equipment (Not included in Construction Contract)	518,350
8.	Moveable Equipment (List all equipment over $50,000)*	
9.	Other (Specify)	
	Subsection A Total	**$ 817,350**

B. Acquisition by gift, donation, or lease.

1.	Facility (Inclusive of Building and Land) (FMV)	$ 1,392,600
2.	Building Only	
3.	Land Only	
4.	Equipment (Specify)	
	MRI, CT, Mammo, X-Ray/Fluoro, Ultrasound	2,115,949
5.	Other (Specify)	
	Equipment Maintenance	1,008,000
	Subsection B Total	**$ 4,516,549**

C. Financing costs and fees

1.	Interim Financing	
2.	Underwriting Costs	
3.	Reserve for One Year's Debt Service	
4.	Other (Specify)	
	Subsection C Total	**0**

D.	Estimated Project Cost (A + B + C)		**$ 5,333,899.00**
E.	CON Filing Fee		**$ 12,001.28**
F.	Total Estimated Project Cost (D + E)	TOTAL	**$ 5,345,900.28**

2. **Identify the funding sources for this project.**

   a. **Please check the applicable item(s) below and briefly summarize how the project will be financed.** ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)***

___ **A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

___ **B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

___ **C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.**

___ **D. Grants--Notification of intent form for grant application or notice of grant award; or**

_X_ **E. Cash Reserves--Appropriate documentation from Chief Financial Officer.**

___ **F. Other—Identify and document funding from all other sources.**

Response: This project will be financed by cash reserves. The financials of the Applicant indicate that funds are available. In addition, J. Richard Wagers, Jr., Regional One Health's Sr. Executive Vice President and CFO, has furnished a letter attesting that Regional One Health has sufficient assets to implement this project (see *Attachment C.EF.2*).

3. **Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.**

Response: Approximately 4,587 GSF will be renovated, and adding the common area factor, a total of 5,275 GSF will be leased. The Applicant's renovation costs of $249,000, divided by the GSF of the ODC (4,587) equals approximately $54.29 per GSF.

This project is financially feasible, based on cost information gathered by the HSDA for hospital projects between 2009 and 2011, as seen in the next chart:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	$125.84/sq ft	$235.86/sq ft	$167.99/sq ft
Median	$177.60/sq ft	$274.63/sq ft	$249.32/sq ft
3rd Quartile	$273.69/sq ft	$324.00/sq ft	$301.74/sq ft

Source: CON approved applications for years 2009 through 2011

Please see *Attachment C.EF.1*, which is a letter from the Project Manager for this project.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

Response: As a new Applicant, there is no historical data. The Projected Data Chart is complete.

Please note that the project will have a positive cash flow in both Years 1 and 2. However, equipment maintenance costs are not charged on the first year of the lease. However, such costs do begin in Year 2. Therefore, costs increase in Year 2, thereby affecting our bottom line. Even so, we anticipate continuing positive cash flow in succeeding years.

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in _____(month).

Response:

A.	Utilization/Occupancy Rate (Patient Days)			
B.	Revenue from Services to Patients			
	1. Inpatient Services			
	2. Outpatient Services			
	3. Emergency Services			
	4. Other Operating Revenue (Specify)_____			
	Gross Operating Revenue			
C.	Deductions from Operating Revenue			
	1. Contractual Adjustments			
	2. Provision for Charity Care			
	3. Provision for Bad Debt			
	Total Deductions			
	NET OPERATING REVENUE			
D.	Operating Expenses			
	1. Salaries and Wages			
	2. Physician's Salaries and Wages			
	3. Supplies			
	4 . Taxes			
	5 . Depreciation			
	6. Rent			
	7. Interest, other than Capital			
	8. Management Fees:			
	a. Fees to Affiliates			
	b. Fees to Non-Affiliates			
	9. Other Expenses (Specify) ATTACHED			
	Total Operating Expenses			
E.	Other Revenue (Expenses)-Net (Specify) Attached			
	NET OPERATING INCOME (LOSS)			
F.	Capital Expenditures			
	1. Retirement of Principal			
	2. Interest			
	Total Capital Expenditure			
	NET OPERATING INCOME (LOSS) LESSCAPITAL EXPENDITURES			

PROJECTED DATA CHART

		Yr-1	Yr-2
A.	Utilization/Occupancy (Patient Days)	12,579	15,095
B.	Revenue from Services to Patients		
	l. Inpatient Services		
	2. Outpatient Services	7,758,909	9,310,691
	3. Emergency Services		
	4. Other Operating Revenue (Specify		
	Gross Operating Revenue	**7,758,909**	**9,310,691**
C.	Deductions from Operating Revenue		
	1. Contractual Adjustments	4,911,583	5,893,900
	2. Provision for Charity Care	131,707	158,049
	3. Provision for Bad Debt	81,469	97,762
	Total Deductions	**5,124,759**	**6,149,711**
	NET OPERATING REVENUE	**2,634,150**	**3,160,979**
D.	Operating Expenses		
	1. Salaries and Wages	571,200	647,170
	2. Physician's Salaries and Wages (Contracted)	474,147	568,976
	3. Supplies	107,438	132,794
	4 . Taxes	60,000	60,000
	5 . Depreciation	100,703	100,703
	6. Rent	144,000	144,000
	7. Interest, other than Capital	104	104
	8. Management Fees:		
	a. Fees to Affiliates		
	b. Fees to Non-Affiliates	111,366	126,439
	9. Other Expenses (Specify) Attached	851,889	1335,720
	Total Operating Expenses	**2,420,848**	**3,115,906**
E.	Other Revenue (Expenses)-Net (Specify) Attached		
	NET OPERATING INCOME (LOSS)	**213,302**	**45,074**
F.	Capital Expenditures		
	1. Retirement of Principal		
	2. Interest (on Letter of Credit)		
	Total Capital Expenditure		
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	**213,302**	**45,074**

Give information for the two (2) years following the completion of this project. The fiscal year begins in July (month).

OTHER EXPENSES
PROJECTED DATA CHART

Item D 9 -- Other Expenses	Year 1	Year 2
Purchased Admin Services	144,205	120,189
General and Admin	290,301	296,107
Utilities	97,386	96,639
Misc Equipment Leases	180,509	361,018
Equipment Service and Repair	4,500	266,035
Billing and Collections	134,988	195,732
Total	**$851,889**	**$1,335,720**

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

Response: There are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient:	$555
Average Deduction/Patient	$366
Average Net Charge/Patient	$188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	$1,794
Average Deduction/Patient	$1,185
Average Net Charge/Patient	$609.

6. **A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.**

Response: There are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient:	$555
Average Deduction/Patient	$366
Average Net Charge/Patient	$188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	$1,794
Average Deduction/Patient	$1,185
Average Net Charge/Patient	$609.

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: According to the HSDA, the median charge for an MRI procedure in 2012 was $2,106.03. The Applicant anticipates the following for Year 1:

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	$1,794
Average Deduction/Patient	$1,185
Average Net Charge/Patient	$609.

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Response: The Projected Data Chart indicates sufficient revenue to maintain cost-effectiveness. Obviously, income is dependent upon rendering services to a sufficient number of patients. However, the number of anticipated procedures clearly shows that sufficient utilization of the ODC will result in positive cash flow.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: The Projected Data Chart indicates sufficient revenue to maintain cost-effectiveness. Obviously, income is dependent upon rendering services to a sufficient number of patients. However, the number of anticipated procedures clearly shows that sufficient utilization of the ODC will result in positive cash flow.

The Hospital itself (the Applicant's Owner) has reported profitable years since 2010, the year the new management team was hired. In fact, Regional One Health has increased its revenue to the extent it has sufficient cash reserves to fund this project. Financial viability has been ensured by improvements made at the hospital, including cutting expenses, streamlining processes, reworking contracts, enhancing the quality of services, and improving the financial viability of Regional One Health. This CON project is the next phase of planned improvements to further improve both the quality of services being provided to our patients and enhance patient convenience.

9. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and Medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.**

Response: The Hospital participates in Medicare and TennCare, as will the Applicant. The following payor sources are anticipated at our ODC, by payor mix:

Medicaid	25%
Medicare	25%
Contracted Commercial	30%
Other Commercial	10%
Self Pay	10%.

10. **Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.**

Response: See *Attachment C.EF.10.*

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response: The only alternative – other than doing nothing – that was considered was placing more diagnostic equipment at the hospital's campus. This alternative was discarded due to space limitations and patient inconvenience. This new site for a new ODC was chosen for the various reasons already described in detail in this application.

b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response: The only alternative – other than doing nothing – that was considered was placing more diagnostic equipment at the hospital's campus. This alternative was discarded due to space limitations and patient inconvenience. This new site for a new ODC was chosen for the various reasons already described in detail in this application.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. **List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.**

Response: The Hospital has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. These contracts will not change as a result of this project. The Applicant will pursue contracts with the same MCOs, and with any new MCOs that provide services in the area.

Regional One Health and its predecessors have provided acute medical services for citizens of Shelby County and the surrounding area for generations, beginning in 1936. Today, it is a regional referral facility for a wide catchment area. While Shelby County residents remain its main reason for existence, the hospital provides a wide assortment of tertiary health care services for people from surrounding areas. As stated earlier, its 2011 JAR shows that its patients originated from 31 Tennessee counties plus 10 additional states. As such, Regional One Health has a plethora of contractual and working relationships.

See *Attachment C.OD.1* for a letter of support from an existing provider. Other letters may be provided later.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

Response: The approval of this project will only result in positive outcomes. Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

As our patients who require diagnostic procedures are referred from within our health system, there should be no negative impact on existing rehab providers.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

Response: We anticipate hiring only 4 equipment technicians ("…employees providing patient care for the project."). The salary for each technician will be approximately $60,000 per year. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

Comparable clinical staff in the service area as published by the Tennessee Department of Labor & Workforce Development is included in *Attachment C.OD.3*.

4. **Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.**

Response: We anticipate hiring only 4 equipment technicians ("...employees providing patient care for the project."). The salary for each technician will be approximately $60,000 per year. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

Comparable clinical staff in the service area as published by the Tennessee Department of Labor & Workforce Development is included in *Attachment C.OD.3*.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.***

Response: The Applicant (through its Owner) is familiar with all licensing certification requirements for medical/clinical staff.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g.,* internships, residencies, etc.).**

Response: The Applicant's Owner has clinical affiliation relationships with UT School of Medicine and the University of Memphis School of Nursing. These relationships will only enhance services being provided by our ODC. See *Attachment C.OD.6.*

7. **(a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.**

Response: The Applicant, through its Owner, is familiar with all licensure requirements of the regulatory agencies of the State.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response:

Licensure:	Tennessee Department of Health
Accreditation:	Medicare, Medicaid/TennCare, ACR

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Response: Not Applicable.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: Not Applicable.

8. **Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.**

Response: There have been no final orders or judgments as are contemplated by this question.

9. **Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project**

Response: There have been no final orders or judgments as are contemplated by this question.

10. **If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.**

Response: The Applicant will provide all data contemplated by this question.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: If the requested documentation is not attached, it will be submitted once received.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**
2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,* please state below any request for an extended schedule and document the "good cause" for such an extension.**

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 11/2012

Assuming the CON approval becomes the final agency action on that date; indicate the number of day **from the above agency decision date** to each phase of the completion forecast.

Phase	**DAYS REQUIRED**	**Anticipated Date (MONTH/YEAR)**
1. Architectural and engineering contract signed	15	07/03/14
2. Construction documents approved, TDOH	60	09/02/14
3. Construction contract signed	1	09/03/14
4. Building permit secured	5	09/09/14
5. Site preparation completed	N/A	
6. Building construction commenced	1	09/10/14
7. Construction 40% complete	60	11/09/14
8. Construction 80% complete	60	01/09/15
9. Construction 100% complete (app., occupancy)	30	02/09/15
10. *Issuance of license	30	03/09/15
11. *Initiation of service	30	04/09/15
12. Final Architectural Certification of Payment	30	03/09/15
13. Final Project Report Form (HF0055)	21	04/01/15

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

E. Graham Baker, Jr., being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of my knowledge, information, and belief.

E. Graham Baker, Jr., ATTORNEY AT LAW
SIGNATURE/TITLE

Sworn to and subscribed before me this 13th day of June, 2014, a
(month) (year)

Notary Public in and for the County/State of Davidson/Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC

NADEAU E. POTEET
STATE OF TENNESSEE
NOTARY PUBLIC
DAVIDSON COUNTY

My commission expires July 3rd, 2017.
(Month/Day) (Year)

STATE HEALTH PLAN

CERTIFICATE OF NEED STANDARDS AND CRITERIA

FOR

MAGNETIC RESONANCE IMAGING SERVICES

The Health Services and Development Agency (HSDA) may consider the following standards and criteria for applications seeking to provide Magnetic Resonance Imaging (MRI) services. Existing providers of MRI services are not affected by these standards and criteria unless they take an action that requires a new certificate of need (CON) for MRI services.

These standards and criteria are effective immediately as of December 21, 2011, the date of approval and adoption by the Governor of the State Health Plan changes for 2011. Applications to provide MRI services that were deemed complete by HSDA prior to this date shall be considered under the Guidelines for Growth, 2000 Edition.

Definitions

Capacity: The measure of the maximum number of MRI procedures per MRI unit per year based upon the type of MRI equipment.

Dedicated Breast MRI Unit: An MRI unit that is configured to perform only breast MRI procedures and is not capable of performing other types of non-breast MRI procedures.

Dedicated Extremity MRI Unit: An MRI unit that is utilized for the imaging of extremities only and is of open design with a field of view no greater than 25 centimeters.

Magnetic Resonance Imaging (MRI): A noninvasive diagnostic modality in which electronic equipment is used to create tomographic images of body structure. The MRI scanner exposes the target area to non ionizing magnetic energy and radio frequency fields, focusing on the nuclei of atoms such as hydrogen in the body tissue. Response of selected nuclei to this stimulus is translated into images for evaluation by the physician.

MRI Procedure: A single, discrete MRI study performed on a single patient during a

single visit. The Health Services and Development Agency (HSDA) shall be responsible for setting reporting requirements consistent with this definition, including the development of a selected set of CPT codes, which shall not include research-only CPT codes for purposes of determining capacity and need.

MRI Study: An MRI scan defined by a CPT procedure code.

MRI Unit: Medical imaging equipment (often referred to as a "scanner") that uses nuclear magnetic resonance to create tomographic images of body structure. MRI units may be differentiated by magnetic field strength ("tesla" or "T"), and also by construction or orientation. A "closed" scanner typically uses a higher strength magnet and an "open" scanner typically uses a lower strength magnet. There are also "multi-position" or "stand-up" scanners (often used for spine and joint evaluation, where weight-bearing is required) and limited-use scanners, such as those designed only to scan the breast or extremities (e.g., elbows, wrists, toes, etc.).

Mobile MRI Unit: An MRI unit and transporting equipment that is moved or able to be moved to provide services at two or more host facilities, including facilities located in adjoining or contiguous states of the United States.

Mobile MRI Unit Capacity: Total capacity of a mobile MRI unit is 600 annual procedures per day of operation per week and is based upon a daily operating efficiency of 12 procedures per day x 50 weeks per year, multiplied by the number of days per week that the equipment is used. The optimal efficiency of a mobile MRI unit is based upon the number of days per week that it is in operation. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of total capacity.

Dedicated Multi-position MRI Unit: An MRI unit that permits the patient to be scanned in various positions, such as sitting, standing, bending, or leaning, as well as lying down, for the purpose of providing weight-bearing scans.

Service Area: The contiguous counties or portions thereof representing a reasonable area in which an applicant intends to provide MRI unit services and in which at least 75% of its service recipients reside. An MRI unit should be located at a site that allows reasonable access for residents of the service area.

Service Area Capacity: The estimate of the number of MRI units needed in a given service area. The estimate is based upon an optimal efficiency of 2,880 procedures per year for a stationary MRI unit and an optimal efficiency of 480 annual procedures per day of operation per week for a mobile MRI unit

Specialty MRI Unit: A Dedicated Breast, Extremity, or Multi-position MRI unit. **Stationary MRI Unit:** A non-moveable MRI unit housed at a single permanent location.

Stationary MRI Unit Capacity: Total capacity of a stationary MRI unit is 3600 procedures per year and is based upon a daily operating efficiency of 1.20 procedures per hour, 12 hours per day x 5 days a week x 50 weeks of operation per year. The optimal efficiency for a stationary MRI unit is 80 percent of total capacity, or 2,880 procedures per year.

Standards and Criteria

1. Utilization Standards for non-Specialty MRI Units.
    a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

Response: The Applicant projects 2,363 scans in Year 1, and 2,611 scans in Year 2.

    b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Response: Not applicable.

    c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

Response: Not applicable.

    d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

Response: Not applicable.

    e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with another medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

Response: Not applicable.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

Response: Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

Response: The Applicant has researched available technology and has decided that the Optima MR 450w MRI has features most desirable for our particular ODC, including but not limited to high resolution and high signal-to-noise ratio images in short exam times. Please see *Attachment B.II.E.1.*

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelvemonth period reflected in the provider medical equipment report maintained by the HSDA. The total capacity **per MRI unit is based upon the following formula:**

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: **Twelve (12) procedures per day** x days per week in operation x 50 weeks per year. For each **day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600**

procedures per year.

Response: The anticipated hours of operation of the ODC are from 7 a.m. to 5 p.m., Mon – Fri. If demand exceeds this schedule, we will extend our hours of operation.

5. Need Standards for Specialty **MRI Units.**

a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to **acquire a dedicated** fixed or **mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures** (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

1. It has an **existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided** by mammography, **ultrasound, and MM unit equipment, and** that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;

2. Its existing **mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;**

3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is **based in the proposed service area.**

4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, **and primary care providers.**

Response: Not applicable.

b. Dedicated fixed or mobile Extremity MR1 Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MR1 Unit shall provide documentation of the total capacity of the proposed MR1 Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MR1 procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.

Response: Not applicable.

c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Multi-position MRI Unit and a CON granted for this use should so state on its face.

Response: Not applicable.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. If data availability permits, Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Response: Not applicable.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

Response: The MRI is FDA approved. Please see *Attachment B.II.E.1.*

b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

Response: The MRI procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure emergencies will be managed in conformity with accepted medical practice. These protocols will be replicated in the ODC.

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services. These protocols will be replicated in the ODC.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

Response: The Applicant will meet such staffing recommendations and requirements.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

Response: The Applicant plans to file for ACR accreditation.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Response: The Applicant's Owner (Regional One Health) has such agreements, and the same agreements will be pursued and implemented by the Applicant.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

Response: The Applicant will provide all data contemplated by this question.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

Response: Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant.

In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The

approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Response: Not applicable.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

Response: Regional One Health has TennCare contracts with UHC/Americhoice, Blue Care and TennCare Select. The Applicant, as a wholly-owned subsidiary, will pursue the same contracts.

The Applicant will contract with any new MCOs that provide services in the area.

Attachment A.13 shows the grand divisions of the State of Tennessee, by MCO coverage.

d. Who is proposing to use the MR1 unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

Response: Not applicable.

Rationale for Revised and Updated Standards and Criteria for Magnetic Resonance Imaging Services

Definitions

Specialty MRI Units. The Office of Health Planning recognizes that certain MR1 Units dedicated for breast, extremity, and multi-position purposes do not reach the level of utilization that standard MRI Units do. Consequently, definitions for these Specialty Units have been created and specific standards for each have been developed.

MRI Procedure. To provide for uniform procedure reporting, the Health Services and Development Agency is responsible for setting CPT code reporting requirements consistent with the definition of MRI Procedure. Research CPT codes are excluded from capacity and need calculations.

Capacity. The Office solicited operating schedule information from owners/operators of MRI Units. From this information, while total capacity of a non-Specialty MRI Unit could conceivably be based on an operating schedule of 24 hours per day, 7 days per week, usual practice does not cover such extended hours of operation. It appears that physician offices and outpatient diagnostic centers more usually operate their MRI Units Monday-Friday; inpatient facilities typically operate Monday-Friday, with the potential to operate on Saturdays as needed. There are exceptions, however, with both outpatient and inpatient MRI Units operating more than five days a week. Hours of operation vary and seem to not be dependent upon outpatient or inpatient use, usually from 12 to 16 hours per day. Utilization and operating practices can and do vary widely.

Additionally, from the information received, the length of time per scan varies depending on a variety of circumstances, including protocols in place, whether a patient is sedated or needs longer time to be placed in the unit, whether the scan is with or without contrast, etc. A scan may take as little as 30 minutes or as long as 80 (or more) minutes. Typically, due to sedation and/or contrast requirements, an inpatient facility will take longer to perform its scans. However, Tennessee does not collect sufficient data on these scans in order to develop a total capacity formula based on them.

We are basing a total non-Specialty MR1 unit capacity number on the performance of 1.20 scans per hour, Monday through Friday utilization, 12 hours a day, 50 weeks a year, for a total capacity number of 3,600. Using an 80% optimal efficiency number, we arrive at 2,880 as the number of scans a year that a typical stationary non-Specialty MRI Unit should be able to perform.

Standards and Criteria Regarding Certificate of Need Applications for Magnetic Resonance Imaging Services

1. Exceptions to Utilization Standards: Exceptions to the standard number of procedures has been retained for new or improved technology and diagnostic applications, and for mobile MR1 Units in operation fewer than 150 days of service per year. Applications for hybrid MRI Units (e.g., MRI Units combined with PET Units or MRT Units) may be assessed under the primary use of the hybrid unit.

2. Other Access Issues: The provision of health care doesn't recognize state boundaries. Accordingly, applicants may include non-Tennessee counties in proposed service areas if that data are available.

3. Economic Efficiencies: To support the goal of reducing health care costs, applicants should document that other options have been investigated and found less advantageous.

4. Specialty **MRI** Units Standards: Dedicated Breast MRI Units have a proposed total capacity estimate of 2,000 procedures per year. Dedicated Extremity and Dedicated Multi-position MRI Units do not have a defined estimate; an applicant must demonstrate total capacity as well as its estimated annual utilization that, by the third year, will be at least 80% of total capacity.

5. Inventories: Given that there are proposed different standards for Specialty and non-Specialty MRI Units, separate inventories should be maintained. Additionally, a CON granted for the institution of a Specialty MRI Unit should not be permitted to be used for non-Specialty MRI purposes; it is recommended that any CON granted for Specialty MRI purposes so state on its face.

6. Quality of Care: Specific staffing, training, and education standards are included to help ensure patient safety and quality of care provided.

OUTPATIENT DIAGNOSTIC CENTERS

1. **The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.**

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

2. **Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.**

Response: The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

3. **Any special needs and circumstances:**

   a. **The needs of both medical and outpatient diagnostic facilities and services must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

b. Other special needs and circumstances, which might be pertinent, must be analyzed.

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

c. The applicant must provide evidence that the proposed diagnostic outpatient services will meet the needs of the potential clientele to be served.

1. The applicant must demonstrate how emergencies within the outpatient diagnostic facility will be managed in conformity with accepted medical practice.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure emergencies will be managed in conformity with accepted medical practice. These protocols will be replicated in the ODC.

2. The applicant must establish protocols that will assure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services. These protocols will be replicated in the ODC.

Attachment A.4

STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
William R. Snodgrass Tower
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

Regional One Health Imaging, LLC
877 JEFFERSON AVE
MEMPHIS, TN 38103-2807

June 4, 2014

Filing Acknowledgment

Please review the filing information below and notify our office immediately of any discrepancies.

SOS Control # :	**760071**	Formation Locale:	TENNESSEE
Filing Type:	Limited Liability Company - Domestic	Date Formed:	06/04/2014
Filing Date:	06/04/2014 1:43 PM	Fiscal Year Close:	12
Status:	Active	Annual Report Due:	04/01/2015
Duration Term:	Perpetual	Image # :	7348-2023
Managed By:	Member Managed		
Business County:	SHELBY COUNTY		

Document Receipt

Receipt # : 1526997 — Filing Fee: $300.00

Payment-Check/MO - WALLER LANSDEN DORTCH & DAVIS LLP, Nashville, TN $300.00

Registered Agent Address:
MONICA N WHARTON
877 JEFFERSON AVE
MEMPHIS, TN 38103-2807

Principal Address:
877 JEFFERSON AVE
MEMPHIS, TN 38103-2807

Congratulations on the successful filing of your **Articles of Organization** for **Regional One Health Imaging, LLC** in the State of Tennessee which is effective on the date shown above. You must also file this document in the office of the Register of Deeds in the county where the entity has its principal office if such principal office is in Tennessee. Visit the TN Department of Revenue website (apps.tn.gov/bizreg) to determine your online tax registration requirements.

You must file an Annual Report with this office on or before the Annual Report Due Date noted above and maintain a Registered Office and Registered Agent. Failure to do so will subject the business to Administrative Dissolution/Revocation.

Tre Hargett
Secretary of State

Processed By: Cheryl Donnell

FILED

ARTICLES OF ORGANIZATION
OF
REGIONAL ONE HEALTH IMAGING, LLC

The undersigned, acting as the organizer of a limited liability company (the "Company") under the Tennessee Revised Limited Liability Company Act, Tennessee Code Annotated, Sections 48-249-101, *et seq.* (the "Act"), as amended, hereby adopts the following Articles of Organization for such limited liability company:

ARTICLE I

The name of the limited liability company is Regional One Health Imaging, LLC (the "Company").

ARTICLE II

The address of the initial registered office is 877 Jefferson Avenue, Memphis, Tennessee 38103, in Shelby County. The name of the Company's initial registered agent is Monica N. Wharton.

ARTICLE III

The name and address of the organizer of the Company is Kim Harvey Looney, 511 Union Street, Suite 2700, Nashville, Tennessee 37219.

ARTICLE IV

The initial principal executive office of the Company is 877 Jefferson Avenue, Memphis, Tennessee 38103. The county in which the initial principal executive office is located is Shelby County, Tennessee.

ARTICLE V

The Company shall be member-managed.

ARTICLE VI

The existence of the Company is to begin upon the filing of the Articles.

Dated: June 4, 2014

Kim Harvey Looney, Organizer

11915198.1

CHARTER

of

SHELBY COUNTY HEALTH CARE CORPORATION

The undersigned natural person, having capacity to contract and acting as the incorporator of a corporation under the Tennessee General Corporation Act, adopts the following Charter for such corporation:

1. The name of the corporation is SHELBY COUNTY HEALTH CARE CORPORATION

2. The duration of the corporation is perpetual.

3. The address of the principal office of the corporation in the State of Tennessee shall be 1900 - One Commerce Square, Memphis, Shelby County, Tennessee, 38103.

4. The corporation is not-for-profit.

5. The purposes for which the corporation is organized are:

(a) To establish, own, lease, acquire and operate one or more hospitals, clinics and similar health care facilities which shall actively engage in providing medical care to patients on its premises, in its facilities, and to provide [illegible] and treatment of the sick and injured including the operation of laboratories and other facilities necessary to carry out its principle purpose of providing medical care, with no part of the net earnings inuring to the benefit of any incorporator, director or any other person or persons. The Board of Directors

of the corporation may, without, but not persons who in the judgment of the Board of Directors are unable to pay therefore, whatever service or care they require without charge, but shall charge the persons, able to pay, who may receive the benefits of its service or care what the Directors shall deem to be reasonable compensation, according to the rules and regulations which the Board of Directors may prescribe.

(b) This corporation is organized and shall be operated exclusively for charitable, scientific, literary, religious and educational purposes, no part of the net earnings of which shall inure to the benefit of any incorporator, director, or any other person or persons; no substantial part of the activities shall be to carry on propaganda, or otherwise attempt to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distributing of statements) any political campaign.

(c) To have and exercise all of the powers as are permitted a corporation not-for-profit by the Tennessee General Corporation Act.

(d) Notwithstanding any other provision of this Charter, this corporation shall not carry on any activity or exercise any power not permitted to be carried on by (a) a corporation exempt from Federal Income Tax under §501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United

States Internal Revenue Law or (b) a corporation, contributions to which are deductible under §170(c)(2) of the Internal Revenue Code of 1954 or any other corresponding provision of any future United States Internal Revenue Law.

6. This corporation is to have no members.

7. The governing body of this corporation shall be a Board of Directors who shall manage its business and affairs. The Directors shall be of legal age. The number of Directors shall be ten (10) all of whom shall be appointed by the Mayor of Shelby County, Tennessee; however, the Mayor shall appoint three (3) of the Directors that have been approved by Methodist Hospitals of Memphis and three (3) other Directors who have been approved by the University of Tennessee. Said Mayor shall appoint as one of the other Directors the Administrator of the hospital which is owned, leased, and/or managed by this corporation. The Director who is the Administrator of the said hospital shall be an ex officio director with no vote and who will not be counted for quorum purposes.

8. By-Laws of this corporation shall be adopted, amended or repealed by the Board of Directors by such vote as may be specified in the By-Laws.

9. In the event of dissolution, the residual assets of the organization will be turned over to one or more organizations which themselves are exempt as organizations described in §§501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1954 or corresponding sections of any prior or future Internal Revenue Code,

or to the Federal, State or local government for exclusively public purposes.

10. Whenever under the Tennessee General Corporation Act Directors are required or permitted to take any action by vote, such action may be taken without a meeting on written consent in which there is set forth the action so taken and which is signed by all of the Directors entitled to vote thereon.

DATED this 12th day of June, 1981.

Gavin McGinty
Incorporator

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CHARTER

of

SHELBY COUNTY HEALTH CARE CORPORATION

The undersigned natural person, having capacity to contract and acting as the incorporator of a corporation under the Tennessee General Corporation Act, adopts the following Charter for such corporation:

1. The name of the corporation is SHELBY COUNTY HEALTH CARE CORPORATION.

2. The duration of the corporation is perpetual.

3. The address of the principal office of the corporation in the State of Tennessee shall be 1900 One Commerce Square, Memphis, Shelby County, Tennessee, 38103.

4. The corporation is not-for-profit.

5. The purposes for which the corporation is organized are:

(a) To establish, own, lease, acquire and operate one or more hospitals, clinics and similar health care facilities which shall actively engage in providing medical care to patients on its premises in its facilities, and to provide medical care and treatment of the sick and injured including the operation of laboratories and other facilities necessary to carry out its principle purpose of providing medical care, with no part of the net earnings inuring to the benefit of any incorporator, director or any other person or persons. The Board of Directors

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of the corporation may furnish for all persons who in the judgment of the Board of Directors are unable to pay therefore, whatever service or care they require without charge, but shall charge the persons, able to pay, who may receive the benefits of its service or care what the Directors shall deem to be reasonable compensation, according to the rules and regulations which the Board of Directors may prescribe.

(b) This corporation is organized and shall be operated exclusively for charitable, scientific, literary, religious and educational purposes, no part of the net earnings of which shall inure to the benefit of any incorporator, director, or any other person or persons; no substantial part of the activities shall be to carry on propaganda, or otherwise attempt to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distributing of statements) any political campaign.

(c) To have and exercise all of the powers as are permitted a corporation not-for-profit by the Tennessee General Corporation Act.

(d) Notwithstanding any other provision of this Charter, this corporation shall not carry on any activity or exercise any power not permitted to be carried on by (a) a corporation exempt from Federal Income Tax under §501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United

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States Internal Revenue Law or (b) a corporation, contributions to which are deductible under §170(c)(2) of the Internal Revenue Code of 1954 or any other corresponding provision of any future United States Internal Revenue Law.

6. This corporation is to have no members.

7. The governing body of this corporation shall be a Board of Directors who shall manage its business and affairs. The Directors shall be of legal age. The number of Directors shall be ten (10) all of whom shall be appointed by the Mayor of Shelby County, Tennessee; however, the Mayor shall appoint three (3) of the Directors that have been approved by Methodist Hospitals of Memphis and three (3) other Directors who have been approved by the University of Tennessee. Said Mayor shall appoint as one of the other Directors the Administrator of the hospital which is owned, leased, and/or managed by this corporation. The Director who is the Administrator of the said hospital shall be an ex officio director with no vote and who will not be counted for quorum purposes.

8. By-Laws of this corporation shall be adopted, amended or repealed by the Board of Directors by such vote as may be specified in the By-Laws.

9. In the event of dissolution, the residual assets of the organization will be turned over to one or more organizations which themselves are exempt as organizations described in §§501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1954 or corresponding sections of any prior or future Internal Revenue Code.

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or to the Federal, State or local government for exclusively public purposes. 15 0015

10. Whenever under the Tennessee General Corporation Act Directors are required or permitted to take any action by vote, such action may be taken without a meeting on written consent in which there is set forth the action so taken and which is signed by all of the Directors entitled to vote thereon.

DATED this 12th day of June, 1981.

Incorporator

ARTICLES OF AMENDMENT TO THE CHARTER
OF
SHELBY COUNTY HEALTH CARE CORPORATION

Pursuant to the provisions of Section 48-60-105 of the Tennessee Nonprofit Corporation Act, the undersigned corporation adopts the following articles of amendment to its charter:

1. The name of the corporation is

SHELBY COUNTY HEALTH CARE CORPORATION

2. The text of each amendment adopted is:

Article No. 3 of the charter is hereby deleted in its entirety, and the following substituted therefor:

"3.(a) The complete address of the corporation's principal office is: 877 Jefferson Avenue, Memphis, Shelby County, Tennessee, 38103.

(b) The complete address of the corporation's current registered office in Tennessee is: Suite 1900, One Commerce Square, Memphis, Shelby County, Tennessee, 38103.

(c) The name of the current registered agent to be located at the address listed in 3(b) is: Gavin M. Gentry."

Article No. 10 of the charter is hereby deleted, and the following substituted therefor:

"10. This corporation is a public benefit corporation."

The following articles are added to the charter:

"11. This corporation is not a religious corporation.

12. Directors of this corporation shall not be personally liable to the corporation for monetary damages for breach of fiduciary duty as a director, except for the following: (a) For any breach of the director's duty of loyalty to the corporation; (b) For acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (c) Liability for unlawful distributions under §48-58-304 of the Tennessee Nonprofit Corporation Act. Nothing in this article is intended to limit, modify or waive the immunity afforded directors under §48-58-601 of the Tennessee Nonprofit Corporation Act."

3. The corporation is a nonprofit corporation.

4. The amendment was duly adopted on June 29, 1990 by the board of directors without members' approval, as such is not required, there being no members.

5. Additional approval for the amendment (as permitted by §48-60-101 of the Tennessee Nonprofit Corporation Act) was not required.

10/16/90
Signature date

President
Signer's Capacity

SHELBY COUNTY HEALTH CARE CORPORATION

BY: Lucy Shaw

Lucy Shaw
Name (typed or printed)

CK # 24113
DATE 10/15/90

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1996 MAY 13 AM 8:17

ARTICLES OF AMENDMENT TO THE CHARTER OF THE SHELBY COUNTY HEALTH CARE CORPORATION

Under the authority of Section 48-1-303 of the Tennessee General Corporation Act, Shelby County Health Care Corporation amends its charter as follows:

All of the provisions of the charter remain the same except paragraph 7, which is hereby deleted and the following substituted therefor:

7. The governing body of this corporation shall be a Board of Directors who shall manage its business and affairs. The Directors shall be of legal age. The Board of Directors shall consist of twelve (12) regular voting members to be appointed by the Mayor of Shelby County, Tennessee, and three (3) non-voting ex-officio members as follows:

(a) The twelve (12) regular voting Directors shall be appointed by the Mayor of Shelby County, Tennessee subject to the approval by the Board of Commissioners of Shelby County. The initial term of the regular voting Directors shall be as follows: four (4) shall be appointed for one (1) year, four (4) for two (2) years, and four (4) for three (3) years. After the initial term, all Directors shall have three (3) year terms.

(b) The Board of Directors shall choose a Chairman from the twelve (12) regular voting Directors and the term of a Chairman will be for one (1) year. A Chairman may not serve more than five (5) successive terms.

(c) In addition to twelve (12) regular voting Directors, the following three (3) persons shall be ex-officio non-voting Directors: the Administrator of the Hospital, the Medical Director of the hospital, and the President of the Medical Staff. Ex-officio Directors shall not be counted for quorum purposes.

The Amendment was duly adopted at a meeting of the Directors on the 27th day of MARCH, 1986, there being no members.

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The Amendment is to be effective when these Articles of Amendment are filed with the Secretary of State, State of Tennessee.

Dated: 3-27-86

SHELBY COUNTY HEALTH CARE CORPORATION

BY: E W Rod M.D.
CHAIRMAN OF THE BOARD

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ARTICLES OF AMENDMENT TO THE CHARTER OF SHELBY COUNTY HEALTH CARE CORPORATION

Under the authority of Section 48-1-303 of the Tennessee General Corporation Act, Shelby County Health Care Corporation amends its Charter as follows:

1. The name of the corporation is SHELBY COUNTY HEALTH CARE CORPORATION.

2. The Amendment adopted is a change in paragraph 7, which is deleted and for which the following is substituted:

7. The governing body of this corporation shall be a Board of Directors who shall manage its business and affairs. The Directors shall be of legal age. The Board of Directors shall consist of twelve (12) voting members to be appointed by the Mayor of Shelby County, Tennessee and one (1) non-voting ex officio member as follows:

(a) The twelve (12) regular voting Directors shall be appointed by the Mayor of Shelby County, Tennessee subject to the approval by the Board of Commissioners of Shelby County. The initial term of the regular voting Directors shall be as follows: four (4) shall be appointed for one (1) year, four (4) for two (2) years and four (4) for three (3) years. After the initial term, all Directors shall have three (3) year terms.

(b) The Board of Directors shall choose a Chairman from the twelve (12) regular voting Directors and the term of the Chairman will be for one (1) year. A Chairman may not serve more than five (5) successive terms.

(c) In addition to the twelve (12) regular voting Directors, the Administrator of the Hospital shall be an ex officio Director with no vote and shall not be counted for quorum purposes.

3. All other provisions shall remain unchanged.

4. The Amendment was duly adopted at a meeting of the Directors on April 25, 1985, there being no members.

The Amendment is to be effective when these Articles of Amendment are filed with the Secretary of State, State of Tennessee.

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1985 MAY 10 PM 3 22

DATED: April 25, 1985

SHELBY COUNTY HEALTH CARE CORPORATION

By: _____
Chairman of the Board

FILED
SECRETARY OF STATE

ARTICLES OF AMENDMENT TO THE CHARTER

1998 JUL 15 PM 2:04

OF

SHELBY COUNTY HEALTH CARE CORPORATION

Under the authority of Section 48-303 of the Tennessee General Corporation Act, Shelby County Health Care Corporation amends its charter as follows:

All of the provisions of the Charter remain the same except paragraphs numbered 7 and 9 which are hereby deleted and the following substituted therefor:

7. The governing body of this corporation shall be a Board of Directors who shall manage its business and affairs. The Directors shall be of legal age. The Board of Directors shall consist of ten (10) members to be appointed by the Mayor of Shelby County, Tennessee, as follows:

(a) Nine (9) of the Directors shall be recommended by the Mayor subject to concurrence of the Board of County Commissioners. The initial terms of the Directors shall be as follows: three shall be appointed for one year, three for two years and three for three years. After the initial term all Directors shall have three year terms.

(b) The Board of Directors shall choose a chairman from the nine voting Directors and the term of a chairman will be for one (1) year and a chairman may not serve more than five (5) successive terms.

(c) One (1) of the Directors shall be the Administrator of the hospital. The Director who is the Administrator of the hospital shall be an ex officio Director with no vote and who shall not be count as for quorum purposes.

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SECRETARY OF STATE
1991 JUL 15 PM 2:04

In the event of dissolution, the residual assets of the organization will be turned over to one or more organizations which themselves are exempt as organizations described in §§501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1954 or corresponding sections of any prior or future Internal Revenue Code, or to the Federal, State or local government for exclusively public purposes, subject to the approval of the Shelby County Government.

The amendment was duly adopted at a meeting of the Directors on June 27, 1991, there being no members.

The amendment is to be effective when these articles of amendment are filed with the Secretary of State, State of Tennessee.

Dated: July 8, 1991

SHELBY COUNTY HEALTH CARE CORPORATION

BY: _____
President

STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
William R. Snodgrass Tower
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

August 17, 2012

E GRAHAM BAKER JR ESQ
1175 TRAVELERS RIDGE DRIVE
NASHVILLE, TN 37220

Request Type: Certificate of Existence/Authorization
Request #: 0074317

Issuance Date: 08/17/2012
Copies Requested: 1

Document Receipt

Receipt # : 809248

Filing Fee: $22.25

Payment-Credit Card - TennesseeAnytime Online Payment #: 146625756 $22.25

Regarding: SHELBY COUNTY HEALTH CARE CORPORATION
Filing Type: Corporation Non-Profit - Domestic
Formation/Qualification Date: 06/15/1981
Status: Active
Duration Term: Perpetual
Business County: SHELBY COUNTY

Control # : 104378
Date Formed: 06/15/1981
Formation Locale: TENNESSEE
Inactive Date:

CERTIFICATE OF EXISTENCE

I, Tre Hargett, Secretary of State of the State of Tennessee, do hereby certify that effective as of the issuance date noted above

SHELBY COUNTY HEALTH CARE CORPORATION

* is a Corporation duly incorporated under the law of this State with a date of incorporation and duration as given above;

* has paid all fees, taxes and penalties owed to this State (as reflected in the records of the Secretary of State and the Department of Revenue) which affect the existence/authorization of the business;

* has filed the most recent corporation annual report required with this office;

* has appointed a registered agent and registered office in this State;

* has not filed Articles of Dissolution or Articles of Termination. A decree of judicial dissolution has not been filed.

Tre Hargett
Secretary of State

Verification #: 001479429

Processed By: Cert Web User

Attachment A.4.2

STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
William R. Snodgrass Tower
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

Filing Information

Name: **SHELBY COUNTY HEALTH CARE CORPORATION**

General Information

SOS Control # :	**104378**	Formation Locale:	TENNESSEE
Filing Type:	Corporation Non-Profit - Domestic	Date Formed:	06/15/1981
Filing Date:	06/15/1981 4:30 PM	Fiscal Year Close	6
Status:	Active		
Duration Term:	Perpetual		
Public/Mutual Benefit:	Public		

Registered Agent Address
MONICA N WHARTON
877 JEFFERSON AVE
MEMPHIS, TN 38103-2807

Principal Address
MONICA N. WHARTON
877 JEFFERSON AVE
MEMPHIS, TN 38103-2807

The following document(s) was/were filed in this office on the date(s) indicated below:

Date Filed	Filing Description	Image #
02/27/2014	Assumed Name	7293-0230
	New Assumed Name Changed From: No Value To: Regional Medical Center	
02/20/2014	Assumed Name	7289-0207
	New Assumed Name Changed From: No Value To: Regional One Health	
11/05/2013	2013 Annual Report	7251-1644
09/18/2012	2012 Annual Report	7096-0422
	Principal Address 3 Changed From: No value To: MONICA N. WHARTON	
02/21/2012	Amended and Restated Formation Documents	6999-2738
	Principal Address 1 Changed From: 877 JEFFERSON AVENUE To: 877 JEFFERSON AVE	
	Principal Postal Code Changed From: 38103 To: 38103-2807	
09/29/2011	2011 Annual Report	6943-1870
04/11/2011	Assumed Name Renewal	6877-2034
	Assumed Name Changed From: THE REGIONAL MEDICAL CENTER AT MEMPHIS To: THE REGIONAL MEDIC. CENTER AT MEMPHIS	
	Expiration Date Changed From: 05/23/2011 To: 04/11/2016	
04/11/2011	Assumed Name Change	6883-0157
	Assumed Name Cancelled Changed From: No Value To: THE REGIONAL MEDICAL CENTER AT MEMPHIS	
	New Assumed Name Changed From: No Value To: Regional Medical Center at Memphis	

Filing Information

Name: **SHELBY COUNTY HEALTH CARE CORPORATION**

09/30/2010	2010 Annual Report	6776-3221
10/07/2009	2009 Annual Report	6609-2422
11/10/2008	Registered Agent Change (by Entity)	6398-1272
	Registered Agent Changed	
08/07/2008	2008 Annual Report	6360-1232
06/27/2007	2007 Annual Report	6080-2141
06/11/2007	Amended and Restated Formation Documents	6071-1204
01/16/2007	2006 Annual Report	5917-0341
12/01/2006	Notice of Determination	ROLL 5893
05/23/2006	Assumed Name	5797-0604
02/01/2006	2005 Annual Report	5673-1570
12/01/2005	Notice of Determination	ROLL 5617
10/04/2004	2004 Annual Report	5248-1491
12/11/2003	2003 Annual Report	4982-0725
12/11/2003	Assumed Name	4982-0727
07/03/2003	Assumed Name	4855-1512
07/05/2002	2002 Annual Report	4544-0739
02/05/2002	2001 Annual Report	4412-3028
12/21/2001	Notice of Determination	ROLL 4376
08/01/2000	2000 Annual Report	3966-0242
12/31/1998	Merger	3601-2051
	Merged Control # Changed From: 000104378	
	Merged Control # Changed From: 000270481	
12/31/1998	Merger	3601-2054
	Merged Control # Changed From: 000104378	
	Merged Control # Changed From: 000222713	
09/09/1998	Assumed Name Renewal	3558-2965
03/11/1998	CMS Annual Report Update	3467-0972
	Registered Agent Changed	
12/19/1997	Notice of Determination	ROLL 3425
03/25/1996	Registered Agent Change (by Entity)	3144-0010
	Registered Agent Physical Address Changed	
	Registered Agent Changed	
03/07/1995	Registered Agent Change (by Agent)	2970-0379
	Registered Agent Physical Address Changed	

Filing Information

Name: **SHELBY COUNTY HEALTH CARE CORPORATION**

12/17/1993	Notice of Determination	ROLL 2766
10/18/1993	Assumed Name	2747-0136
08/30/1991	CMS Annual Report Update	2256-0987
	Mail Address Changed	
10/22/1990	Articles of Amendment	1971-0675
	Principal Address Changed	
	Registered Agent Physical Address Changed	
05/10/1990	Common Amendment	1762-1040
03/16/1990	Dissolution/Revocation - Administrative	ROLL 1685
12/29/1989	Administrative Amendment	1580-1741
	Mail Address Changed	
12/15/1989	Notice of Determination	ROLL 1577
08/04/1988	Assumed Name	906-0005
05/13/1986	Articles of Amendment	611 01687
05/10/1985	Articles of Amendment	542 01037
07/15/1981	Articles of Amendment	219 01080
06/15/1981	Initial Filing	215 00147

Active Assumed Names (if any)	Date	Expires
Regional Medical Center	02/27/2014	02/27/2019
Regional One Health	02/20/2014	02/20/2019
Regional Medical Center at Memphis	04/20/2011	04/11/2016

Attachment A.5

DRAFT

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (the "Agreement") is made and entered into as of this _____ day of _____ 2014, to be effective as provided herein, by and between _____ ("COMPANY"), and **REGIONAL ONE HEALTH IMAGING, LLC** ("ODC"), located in Memphis, Tennessee.

RECITALS:

A. ODC intends to develop, construct and operate an outpatient diagnostic facility (the "Facility"). ODC intends to operate the Facility as a freestanding outpatient diagnostic center.

B. COMPANY has acquired certain training, technical skills and experience with respect to the management of outpatient diagnostic centers, and ODC desires to obtain the services of COMPANY to assist in the management of the Facility.

C. COMPANY is willing to render services as described in this Agreement in accordance with the terms and conditions hereinafter set forth.

1. TERM.

The initial term of this Agreement ("Initial Term") shall commence on_____, 2014 (the "Effective Date"), and shall terminate on the _____ anniversary of the date the Facility commences operations (the "Commencement Date"), unless sooner terminated as provided herein. Following the Initial Term, this Agreement shall automatically renew for successive periods of _____ years duration each (the "Renewal Terms"), unless one party gives the other party at least sixty (60) days written notice of non-renewal. The Initial Term and the Renewal Terms are collectively referred to in this Agreement as the "Term." The terms and conditions for the Renewal Terms shall be substantially similar to those of the Initial Term.

2. RETENTION OF AUTHORITY.

Throughout the Term, ODC shall retain all authority and control over the business, policies, operations and assets of the Facility, except as specifically provided herein, and ODC shall retain the final authority and responsibility for all matters pertaining to the operations of the Facility. ODC does not delegate to COMPANY any of the powers, duties and responsibilities required to be retained by ODC under law and shall be the owner and holder of all certificates and licenses issued under authority of law for operation of the Facility by ODC. ODC shall be the owner and holder of all accreditation certificates and contracts entered into by or on behalf of ODC. COMPANY shall perform the Management Services (as defined below) in accordance with the policies, bylaws and directives of ODC. ODC shall communicate all relevant policies and directives to COMPANY. COMPANY shall be entitled to rely on and assume the validity of communications from, and shall report to, the ODC. All medical and professional matters shall be ODC's sole responsibility. The relationship between the parties hereto is not one of partners or joint venturers, but rather, COMPANY is acting as an independent contractor in discharging its duties hereunder and as agent for ODC in the purchase of any services or tangible personal property to be incorporated into or consumed in the operation of the Facility.

3. DEVELOPMENT SERVICES.

From the Effective Date through the Commencement Date, COMPANY shall assist ODC in managing an outpatient diagnostic facility by providing the services listed on Exhibit A (the "Management Services") and shall assist the ODC and its consultants with completion of a Certificate of Need application for the Facility.

4. MANAGEMENT SERVICES.

From the Commencement Date and thereafter throughout the Term, COMPANY shall provide the following services to the Facility (the "Management Services"):

(a) **General.** Subject to the limitations and conditions set forth in this Agreement, COMPANY, as manager of the Facility, shall have the authority and responsibility to conduct, supervise, and manage the day-to-day operations of the Facility subject to the control of the ODC, which shall continue to have final authority in all matters relating to the Facility's operations. COMPANY shall be expected to exercise its best judgment in its management activities. COMPANY shall have responsibility and commensurate authority, subject to the written policies of ODC, for all activities described in this Section 4 and for those activities described in Exhibit B to this agreement. Although ODC is delegating the management of the Facility to COMPANY in accordance with the terms of this Agreement, all decisions with respect to the business and operations of the Facility are subject to approval by ODC except as otherwise provided herein. COMPANY shall have no authority to enter into any contracts or obligations on behalf of ODC without the prior approval of the ODC.

(b) **Major Decisions.** In conjunction with the performance of its duties as described in this Agreement, COMPANY shall obtain prior written approval from the ODC prior to undertaking any major decisions ("Major Decisions"). Major Decisions shall be defined as, but not be limited to, the following: (i) Sale of assets out of the ordinary course of business; (ii) Purchase of assets not included in the Facility's approved budget or not related to the business of the Facility; (iii) Incurrence of debt or lease obligations by the Facility not in the ordinary course of business; (iv) Entering into professional service provider contracts (e.g. Pathology, Anesthesia) or support service contracts (e.g. Housekeeping, Maintenance); (v) Establishment of or change to Facility fee schedule; (vi) Entering into or termination of any other third party contract; (vii) Approval of annual Facility operating and capital budget; (viii) Capital expenditures in any one fiscal year that total more than $50,000 and are not included in the Facility's approved budget; (ix) Adjustments to the Facility's wage/salary/benefit program for employees; (x) Approval and payment of reimbursement to COMPANY employees; (xi)

Establishment of or change in Facility's credentialing policies, procedures or protocols; (xii) Establishment of or change in Facility's Quality Assurance Plan, policies, procedures or protocols; (xiii) Taking any action or implementation of any policy that COMPANY believes could significantly involve an analysis or interpretation of any State or Federal laws, rules or regulations dealing with fraud and abuse or other similar matters; (xiv) Entering into any contract or agreement on behalf of the Facility that is not subject to termination without cause on thirty (30) days or less prior notice and involves either the expenditure of or receipt of more than $20,000 by the Facility; (xv) Establishment of or change in any Facility policy, procedure or protocol dealing with payor mix or the provision of charity care to, or access to the Facility by, all patients or the conduct of any charitable activities pursuant to the Facility's Charity Care Policy; (xvi) Entering into any agreement or contract on behalf of the Facility with any entity affiliated with the Facility through direct or indirect ownership or by existing contract or agreement. The ODC has the right, at any time during the term of this Agreement, to change the definition of what constitutes Major Decisions to include additional items that require approval by the ODC prior to COMPANY taking any such action. COMPANY may seek written ODC approval before taking any action in addition to one of the Major Decisions which is related to the development or management of the Facility. If there is any reasonable doubt as to whether an action would be considered to be a Major Decision, COMPANY will seek guidance from the ODC.

(c) **Account Team.** COMPANY shall provide to the Facility a dedicated account team with such team to be comprised of the following persons:

(i) COMPANY's Executive. A COMPANY Executive will have overall accountability for the quality and value of COMPANY's services to Facility, and will have overall responsibility for coordination of key initiatives pursued through this Agreement and for COMPANY's performance of its duties under this Agreement. The COMPANY Executive, or his ODC, shall attend the regularly-scheduled monthly or quarterly meetings of the ODC. The COMPANY Executive shall attend such other meetings as may be necessary to effect the intent of this Agreement, and the ODC shall be entitled to a special meeting with the COMPANY Executive upon reasonable notice. Beginning on the Commencement Date, and prior to the

beginning of every calendar year hereafter, ODC shall provide COMPANY with a calendar containing the dates of all regularly-scheduled monthly or quarterly meetings.

(ii) Administrator. Upon approval of the CON application, COMPANY shall select, employ, supervise and train a Facility administrator who is reasonably acceptable to ODC (the "Administrator") to oversee, on a full-time, on-site basis, the execution and performance of the administrative functions of the Facility. The parties acknowledge and agree that neither the Administrator nor COMPANY shall be ultimately responsible for any medical or professional matters relating to the Facility. The Administrator and COMPANY may consult with ODC and make recommendations concerning such matters from time to time; however, ODC shall be solely responsible for all final decisions and actions taken with respect to medical and professional matters.

(iii) Responsibility for Employer Obligations. COMPANY shall be responsible for the payment of compensation, fringe benefits, insurance, licensing fees and employer-paid taxes of all personnel employed by COMPANY, including without limitation, the COMPANY Representative and the Administrator, as well as for the maintenance of workers' compensation coverage and occupational health and safety programs to the extent required by applicable law. COMPANY shall pay all taxes related to its employees, including without limitation, the COMPANY Representative and the Administrator, (i.e. FICA, FUTA, workers' compensation, state unemployment, etc.). COMPANY shall comply with all applicable provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA") as they pertain to such employees, as well as with any and all other obligations under applicable federal, state and local laws relating to an employer's obligations toward its employees.

(d) Management Plan and Reports. COMPANY shall annually prepare and submit to the ODC for review and approval an annual management plan (the "Management Plan") designed to implement the goals and objectives for the Facility, which will set forth the methods and resources to be used and a proposed timetable to be observed to achieve such goals and objectives. Upon acceptance of the final Management Plan as revised and approved by the ODC, the ODC will cause ODC's management to use reasonable commercial efforts to take or cooperate with the actions recommended. The initial proposed Management Plan shall be

delivered to the ODC within sixty (60) days of the Effective Date, and any subsequent proposed plans shall be delivered to the ODC no later than the last day of each fiscal year of ODC. COMPANY shall deliver to the ODC an annual written report on the status of the goals and objectives set forth in the Management Plan approved by the ODC.

(e) **Other Plans and Reports.** COMPANY agrees to provide to ODC, for its review and approval, the following plans and reports:

(i) Consulting Reports. COMPANY will cause copies of all consulting reports prepared pursuant to this Agreement to be delivered to the ODC.

(ii) Monthly Executive Summaries. COMPANY, with assistance from ODC's personnel, will provide the ODC with a monthly executive summary, "The COMPANY Report". Such summaries will contain sections describing: (1) the overall progress of ODC in implementing the Management Plan; (2) the performance of ODC's management, and their effectiveness in implementing the Management Plan approved by the ODC; (3) the status of relationships between ODC and its customers, chiefly physicians and patients utilizing ODC; (4) such other information which COMPANY considers appropriate for ODC discussion; and (5) such other matters as the ODC shall request from time to time.

(f) **Advisory Services.** COMPANY will provide consulting support and recommendations to ODC's management and the ODC regarding the following:

(i) Financial Statements. COMPANY, with assistance from ODC's personnel, will prepare and deliver to the ODC the monthly financial package and monthly financial reports in a timely manner as follows: (1) reports on both the month and year to date basis, (2) statement of income and expenses including explanation of budget variances, (3) key financial statistics, and (4) key operating performance statistics. COMPANY shall not provide audit services, nor perform the functions of a certified public accounting firm, and any fees charged by ODC's independent auditors shall be the sole responsibility of ODC.

(ii) Budgets. COMPANY, with assistance from ODC's personnel, will prepare and submit to the ODC for approval the yearly budgets for the Facility, including the development of a timeline for budget preparation. COMPANY shall assist ODC's management

in developing the following budgets each year for review, approval, disapproval or modification by the ODC;

(1) A capital expenditure budget outlining a program of capital expenditures for the next fiscal year.

(2) An operating budget setting forth an estimate of operating revenues and expenses for the coming fiscal year, together with an explanation of anticipated changes in facility utilization and services offered to patients, charges to patients, payroll rates and positions, non-wage cost increases, and other factors differing significantly from the then current year.

(3) Recommendations as to the sources and amounts of additional cash flow that may be required to meet operating and capital requirements.

(iii) Corporate Compliance. COMPANY agrees to and will comply with the requirements of ODC's compliance program in carrying out its duties under this Agreement, to bring items of potential noncompliance to the attention of ODC when discovered by COMPANY and, at the direction of the ODC, to take corrective action prescribed by the ODC once any item of noncompliance is identified; provided that the costs (including, without limitation, legal and consulting fees and expenses incurred in undertaking any corrective action) required to develop, implement, update and maintain the compliance program shall be the sole responsibility of ODC. In providing development, management and consulting services to Facility and performing its obligations hereunder, COMPANY shall act in accordance with all applicable federal, state and local statutes, including without limitation the applicable Medicare conditions of participation, and shall act in good faith.

(iv) Contract Review. COMPANY will negotiate proposed contracts for services by medical, paramedical and other persons and organizations, and for the services concerning the maintenance and repair of the physical plant of the Facility and make recommendations to the ODC regarding such contracts. All such consulting support and recommendations by COMPANY shall be provided from a business perspective and shall not involve any legal analysis of such contracts.

(v) New Procedures. COMPANY shall evaluate opportunities to provide new clinical procedures, perform a feasibility analysis of each proposed procedure and provide guidance through the process of implementing new services, provided that COMPANY will not provide medical or clinical advice as part of its services.

(vi) Financial Consultation. COMPANY will evaluate debt financing alternatives, analyze capital equipment purchases and evaluate appropriate levels of general and medical liability insurance coverage.

(vii) Performance Measurement. COMPANY will advise as to the measurement of financial performance, productivity and expense management as follows: COMPANY shall provide appropriate national benchmarks for all the Facility's operating and financial performance indicators, a monthly report comparing the Facility's performance to the benchmark targets, and recommendations on ways to meet or exceed such targets. COMPANY shall conduct an annual physician satisfaction survey and shall summarize and report the results of such survey to the ODC for consideration and appropriate action.

(viii) Quality Measurement. COMPANY will advise as to the measurement of quality and safety as follows: COMPANY shall provide current national quality performance benchmarks and advise ODC on the appropriate accumulation of data and information and will provide a monthly report comparing the Facility's quality performance to such benchmarks for the ODC's consideration and action.

(ix) Audit Oversight. COMPANY shall work directly with ODC's audit firm to assure the timely completion of the annual financial audit of the Facility.

(x) Accreditation. Approximately six (6) months before each scheduled accreditation survey, COMPANY shall work with ODC Accreditation personnel to perform a mock survey of the Facility and shall report its findings, along with a corrective action plan, to the ODC.

(g) **Facility Personnel.** ODC shall be the employer of all non-professional Facility personnel, other than the Administrator and other personnel employed by COMPANY or its affiliates who are performing Management Services for the Facility, all of whom shall

nevertheless be subject to the supervision of COMPANY. COMPANY shall design and implement training programs for all managerial and administrative personnel at the Facility and shall ensure that such personnel are properly qualified and trained and satisfy, at a minimum, all educational and competency requirements established by federal and state regulatory agencies and accrediting bodies. COMPANY shall cooperate with ODC in addressing employee issues, including without limitation, enforcing ODC policies and procedures, participating in employment-related investigations, providing training to all Facility personnel regarding employment issues (e.g., anti-harassment, diversity, etc.), assisting in resolving employee complaints and in the defense of employment-related claims, and taking responsibility for workplace safety and other related issues. ODC shall retain ultimate authority over the hiring, disciplining and termination of all management and administrative personnel working at the Facility. COMPANY shall be responsible for preparing an annual evaluation of the Administrator and preparing recommended evaluations for all ODC employees working at the Facility.

(h) **Notices to ODC.** COMPANY shall promptly notify ODC of the following and all relevant facts related thereto:

(i) Any occurrence, event or condition known to COMPANY that could materially impair the health or safety of any patients of the Facility or the ability of COMPANY to perform its obligations under this Agreement;

(ii) Any defective or inoperative equipment at the Facility;

(iii) The existence and basis of any charges, suit, investigation, audit disciplinary action or other proceeding against COMPANY or any member of the Facility's Medical Staff or ODC employee or any subcontractor or service contractor to the Facility or any Affiliate of COMPANY and any claim by any plaintiff, governmental agency, health care facility, peer review organization or professional society which involves any allegation of incompetence or professional misconduct by COMPANY or any employees or service providers of the Facility; and

(iv) Any issues relating to the Facility's Medical Staff or any Facility personnel, including without limitation, complaints, allegations, threats or incidents of actual or alleged misconduct, and workplace safety violations; work-related injuries and accidents; changes in job functions and duties; any misclassifications regarding workers' compensation; union organizing activities; claims of harassment or unfair or abusive treatment.

(i) **Standards of Conduct.** COMPANY shall perform its duties and obligations under this Agreement in a competent, professional and ethical manner in compliance with all rules of professional conduct, applicable federal and state laws and regulations and standards of applicable accreditation organizations, including the standards of the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO").

(j) **Community Benefit Objectives.** The parties hereto acknowledge that the purpose and business of ODC shall be to operate the Facility in Shelby County, Tennessee to promote health and provide services in a non-discriminatory manner to individuals without regard to race, creed, national origin, gender, payor source or the ability to pay for services, to provide health care services in a manner that furthers the charitable purposes of the Hospital by promoting health for a broad cross-section of the community, and to generally engage in such other business and activities and to do any and all other acts and things in furtherance of the purposes of ODC as set forth in its Bylaws and the Charity Care Policy each as amended from time to time. The Facility shall be operated and managed in a manner that will not cause the Hospital to act other than exclusively in furtherance of its tax-exempt purpose, adversely affect its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, or generate income for the Hospital which is subject to federal taxation. The duty of ODC to operate in a manner that furthers the charitable purpose of the Hospital as described above overrides any duty of ODC to operate for the financial benefit of its members. At the request of COMPANY, the ODC shall provide timely guidance and assistance to COMPANY in accomplishing said purposes, including but not limited to those set forth in the preceding sentence. COMPANY, with the support and guidance of the ODC shall: (i) implement the Charity Care Policy and, (ii) provide the ODC with quarterly reports regarding ODC compliance with the Charity Care Policy.

5. **RESTRICTIVE COVENANT.**

(a) **Covenant Not to Hire.** During the Term neither party will, directly or indirectly, through an Affiliate or separate employee leasing or staffing company or otherwise, employ or solicit for employment any employee of the other party, unless the other party gives its written consent thereto. Each party recognizes and agrees that monetary damages are not an adequate remedy for a breach of this covenant not-to-hire. Each party agrees that irreparable damage will result to the other party and its business from a breach of this covenant, and that, in the event of a breach or a threatened breach of this covenant, in addition to monetary damages, the other party shall be entitled to an injunction enjoining such party from violating this covenant.

(b) **Covenant Against Conflicting Engagements.** During the Term, COMPANY will not, directly or indirectly, through an Affiliate or otherwise, establish, own, operate, provide services for or invest or otherwise participate in any hospital-based or freestanding outpatient diagnostic center within _____ miles of the Facility, except for management agreements of COMPANY that are in existence on the date hereof and any renewals thereof. COMPANY recognizes and agrees that monetary damages are not an adequate remedy for a breach of this restrictive covenant. COMPANY agrees that irreparable damage will result to ODC and its business from a breach of this covenant, and that, in the event of a breach or a threatened breach of this covenant, in addition to monetary damages, ODC shall be entitled to an injunction enjoining COMPANY from violating this covenant.

6. **FEES.**

(a) **Pre-Opening Fees.** For Pre-Opening Services rendered by COMPANY pursuant to this Agreement, ODC shall pay COMPANY a monthly development fee of Fifteen Thousand Dollars $15,000, on the first day of each calendar month beginning _____. All fees are in addition to, and not in lieu of, all other payments and reimbursements to be made by ODC to COMPANY under the terms of this Agreement. Upon execution of this Agreement, ODC shall take all necessary steps to initiate and authorize payment of the Fee through wire transfer to COMPANY's account. Such transfer shall occur on or before the 1st business day of each month for services to be rendered during the month.

(b) **Management Services Fee.** In consideration for the Management Services to be provided to ODC by COMPANY during the Term of this Agreement, ODC shall pay COMPANY beginning on the Commencement Date a monthly fee (the "Fee") equal to the greater of (i) $15,000 per month or (ii) _____ percent of the Facility's monthly Net Revenues. The Fee shall be payable monthly and shall be prorated based upon any partial calendar month for which payment is due. The term "Net Revenues" shall mean the Facility's gross patient revenues, less contractual allowances, and reasonable reserves for bad debt and charity care determined in accordance with generally acceptable accounting practices, consistently applied. COMPANY will provide a separate and itemized invoice for the Management Services Fee. All fees are in addition to, and not in lieu of, all other payments and reimbursements to be made by ODC to COMPANY under the terms of this Agreement. Upon execution of this Agreement, ODC shall take all necessary steps to initiate and authorize payment of the Fee through wire transfer to COMPANY's account. Such transfer shall occur on or before the 5th business day of each month for services rendered during the immediately-preceding month. In the event that the final Net Revenues for the immediately-preceding month cannot be determined by the 5th business day, ODC shall advise COMPANY of the estimated Net Revenues for the month and the parties agree that a "true up" calculation will occur in the subsequent month based upon any difference between ODC's estimate and the actual Net Revenues for the month.

(c) **Travel and Out-of-Pocket Expenses.** ODC agrees to reimburse COMPANY for all reasonable and necessary travel-related and out-of-pocket expenses incurred by COMPANY providing services to the Facility in fulfillment of its obligations hereunder. The travel-related and out-of-pocket expenses will be invoiced to ODC, and ODC agrees to pay all invoices for travel-related and out-of-pocket expenses within fifteen (15) days of receipt. Travel-related expenses will include reasonable transportation, lodging and meal expenses. Out-of-pocket expenses will include costs related to printing, copying, telephone or electronic conferences and overnight delivery charges. COMPANY will provide a separate and itemized invoice for travel-related and out-of-pocket expenses.

(d) **Reimbursement of Costs Relating to the Administrator.** ODC further acknowledges that the Administrator shall be paid a salary or hourly wage by COMPANY, and, in addition thereto, shall receive benefits from COMPANY in accordance with COMPANY's

then standard policies (such as health insurance, disability insurance, life insurance and retirement plans). ODC agrees to pay COMPANY through wire transfer to COMPANY's account, on or before the 5th day of the month, before COMPANY's payroll date, an amount equal to the sum of (i) the salary or hourly wage of the Administrator plus (ii) the actual cost of direct benefits and administrative costs related to COMPANY's provision of the Administrator plus (iii) COMPANY's actual costs for statutory benefits related to the provision of the Administrator, such as worker's compensation, FICA, state unemployment and federal unemployment payroll taxes. In addition thereto, ODC agrees to reimburse COMPANY for the following reasonable and necessary expenses incurred by COMPANY with respect to the Administrator: business expenses, relocation and recruitment expenses, interim living expenses, and severance expenses; *provided, however*, that COMPANY shall have obtained ODC's prior written consent prior to incurring any business expenses. COMPANY shall invoice such additional costs and expenses each month to ODC with such invoice being due and payable within fifteen (15) days from the date thereof. It is specifically understood and agreed that all such amounts shall be considered payroll obligations of ODC for purposes of setting priorities for payment of ODC's obligations. COMPANY will provide a separate and itemized invoice for costs relating to the Administrator.

7. DUTY TO COOPERATE.

The parties acknowledge that the parties' mutual cooperation is critical to the ability of COMPANY to perform its duties hereunder successfully and efficiently. Accordingly, each party agrees to cooperate with the other fully in formulating and implementing goals and objectives which are in the Facility's best interest.

For the entire term of this Agreement, the ODC shall name an individual as the formal representative of ODC to COMPANY. This representative shall receive and accept all formal communications from COMPANY and shall be responsible for transmitting all formal communications on behalf of ODC to COMPANY. ODC may change the ODC representative at any time upon providing prior notice to COMPANY.

ODC shall provide COMPANY with the following: (i) Work space during on-site visits to include phone, FAX and online internet access if available; (ii) Reasonable access to the ODC

at agreed-upon or scheduled times; (iii) Timely, accurate and complete responses to reasonable COMPANY requests for data and information pertaining to Facility operations.

8. **PROPRIETARY INFORMATION.**

(a) **COMPANY Systems.** COMPANY retains all ownership and other rights in all systems, manuals, computer software, materials and other information, in whatever form, provided by or developed by COMPANY in the performance of its obligations hereunder including, without limitation, any systems developed by COMPANY or licensed to COMPANY from third parties and used to assist the Facility in performing operational activities in areas such as reimbursement, charge master reviews, and productivity analysis (hereinafter collectively referred to as "COMPANY Systems"); and nothing contained in this Agreement shall be construed as a license or transfer of such COMPANY Systems or any portion thereof, either during the Term of this Agreement or thereafter. Upon the termination or expiration of this Agreement, COMPANY shall have the right to retain all such COMPANY Systems, and ODC shall upon request deliver to COMPANY all such COMPANY Systems in its possession.

Notwithstanding the foregoing, COMPANY hereby grants to ODC, and its successors and assigns, a perpetual, royalty-free, fully-paid, non-exclusive right and license to use at the Facility's current location the COMPANY Systems specifically tailored or designed for the Facility, and all materials, policies, procedures and information delivered through COMPANY for use at the Facility, including the rights to copy, modify and create derivative works from such COMPANY for use in the Facility without the express written consent of COMPANY, but not for any other purpose, after the termination or expiration of this Agreement for any reason. Furthermore, COMPANY agrees that it will not affix a copyright legend to any written materials specifically prepared for the Facility.

(b) **Proprietary Information.** Each party recognizes that due to the nature of this Agreement, it will have access to information of a proprietary nature owned by the other party and its Affiliates, including, without limitation, business plans, financial analyses, fee schedules, managed care contracts, computer programs (whether or not completed or in use), operating manuals and similar materials, forms, contracts, policies, procedures and other information used or employed by them for the operation of their facilities and medical offices. Each party

acknowledges and agrees that all such information constitutes confidential and proprietary information of the other party and agrees to keep such information and the terms and conditions of this Agreement in strictest confidence. Each party hereby waives any and all right, title and interest in and to such proprietary information of another party and agrees to return all copies of such proprietary information and information related thereto to the applicable party, at the expense of the returning party, upon the expiration or termination of this Agreement.

(c) **Confidentiality.** Each party acknowledges and agrees that the other party and its respective Affiliates are entitled to prevent their competitors from obtaining and utilizing their respective proprietary information. Therefore, each of the parties agrees to hold the proprietary information of the other party and its respective Affiliates in the strictest confidence and not to disclose it or allow it to be disclosed, directly or indirectly, to any person or entity other than as expressly provided herein without such other party's prior written consent. Each party shall disclose proprietary information of the other party only to (i) its employees or consultants who have a need to know such information in connection with the performance of its obligations under this Agreement and who are legally bound to protect the confidentiality of such information to the same extent as provided herein or (ii) to those persons or entities who are employed by or affiliated with the party owning such proprietary information. Each party shall protect the other party's proprietary information by using the same degree of care, but not less than a reasonable degree of care, to prevent the unauthorized use, dissemination, publication of or access to the other party's proprietary information as it uses to protect its own proprietary information.

9. FACILITIES AND RECORDS.

(a) **Access to Records.** During the Term, ODC shall give COMPANY full access to such portions of Facility, its facilities, and their records as COMPANY may reasonably require in order to discharge its duties hereunder.

(b) **Medical Records.** The Medical records of the Facility's patients are the property of ODC and shall remain on the Facility's premises or other facilities under the supervision and control of ODC. During the Term of this Agreement, subject to all applicable HIPAA regulations, COMPANY shall at all times be provided free and complete access to such medical

records and may copy all or any part of the same for such purposes as are consistent with its duties and responsibilities under this Agreement. COMPANY shall maintain the confidentiality of patient records, except to the extent that disclosure is required by law or legal process.

(c) **Other Records.** All other records generated at the Facility or by ODC or by COMPANY relating to the provision of Development or Management Services for the Facility are the property of ODC. COMPANY shall maintain the confidentiality of Facility's records and other information regarding Facility, except to the extent that disclosure is required by law or legal process.

(d) **COMPANY Systems-Confidentiality.** ODC acknowledges that COMPANY has invested a significant amount of its resources in developing and maintaining the Systems and that the value to COMPANY of these Systems may be diminished or destroyed if ODC discloses information concerning the Systems or any portion thereof to a third-party. Accordingly, ODC shall maintain the confidentiality of the Systems. ODC shall not knowingly duplicate or knowingly permit the duplication of any portion of the Systems and shall not permit access to the Systems by its personnel or any third party other than on a strict "need-to-know" basis and in the ordinary course of business. ODC shall not loan, lease, or otherwise permit the use of any of the Systems by any other person or entity, regardless of its relationship to ODC. ODC shall notify COMPANY of any suspected or actual breach of these confidentiality requirements. The provisions of this section shall survive any termination or expiration of this Agreement.

(e) **Access.** Upon the written request of the Secretary of Health and Human Services, the Comptroller General, or any of their duly authorized representatives, COMPANY will make available those contracts, books, documents and records necessary to certify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available up to four (4) years after the rendering of such services. If COMPANY carries out any of the duties of this Agreement through a subcontract with a value of $10,000 or more over a twelve (12) month period with a related individual or organization, COMPANY agrees to include this requirement in any such subcontract. This section is included pursuant to and is governed by the requirements of Public Law 96-499, Sec. 952, and the regulations promulgated thereunder.

10. BREACH.

In the event of a breach of any obligation or covenant under this Agreement, the non-breaching party may give the breaching party written notice of the specifics of the breach, and if it does not involve a breach of an obligation to pay money the breaching party shall have thirty (30) days from the date of the receipt of the notice in which to cure the breach or if it involves the breach of an obligation to pay money, the breaching party shall have five (5) business days from the date of the receipt of the notice in which to cure the breach (in either case, the "Cure Period"). Only if the breach is not cured within said Cure Period shall the non-breaching party be entitled to pursue any remedies it may have by reason of the breach, including, but not limited to, the termination of this Agreement. A waiver of any breach of this Agreement shall not constitute a waiver of any future breaches of this Agreement, whether of a similar or dissimilar nature.

11. INDEMNIFICATION AND INSURANCE.

(a) **Indemnification by ODC.** ODC shall indemnify, defend and hold harmless COMPANY, its shareholders, members, directors, officers, employees and agents (each, an "ODC-Indemnified Party") from and against any and all judgments, losses, claims, damages, liabilities, sanctions, penalties, fines, costs and expenses (including reasonable attorneys' fees and expenses paid or incurred by an ODC-Indemnified Party) which may be asserted against or incurred by any ODC-Indemnified Party arising out of any act or omission of ODC or its directors, officers, managers, trustees, employees or agents that constitutes negligence, intentional misconduct or breach of the terms of this Agreement.

(b) **Indemnification by COMPANY.** COMPANY shall indemnify, defend and hold harmless ODC and its respective directors, officers, managers, trustees, employees and agents (each, a "COMPANY-Indemnified Party") from and against all judgments, losses, claims, damages, liabilities, costs and expenses (including reasonable attorneys' fees and expenses paid or incurred by a COMPANY-Indemnified Party) which may be asserted against or incurred by any COMPANY-Indemnified Party arising out of any act or omission of COMPANY or its directors, officers, managers, trustees, employees or agents that constitutes negligence, intentional misconduct or breach of the terms of this Agreement.

(c) **Conditions on Indemnification.** The obligations of an indemnifying party (the "Indemnitor"), as set forth in Sections 11(a) and 11(b) above, are conditioned upon: (i) the indemnified party ("the "Indemnitee") promptly notify the Indemnitor in writing of the commencement or threatened commencement of any action or proceeding involving a claim of indemnification under this Agreement; (ii) with respect to all such claims, the cooperation of the Indemnitee, at the Indemnitor's expense with the investigation and defense of such claims as reasonably requested by the Indemnitor. The Indemnitor shall have sole control over the defense and settlement of any such claim. The foregoing notwithstanding, the Indemnitee shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim and to file and answer or take similar action to prevent the entry of a default judgment against it. The Indemnitor shall not be required to indemnify the Indemnitee for any amount paid or payable by the Indemnitee in a settlement of any claim which was agreed to without the prior written consent of the Indemnitor.

(d) **ODC Insurance.** ODC shall secure and maintain, during the Term of this Agreement, at its own cost and expense, the following minimum insurance coverage:

Worker's Compensation	Statutory Amount
Comprehensive General Liability	Reasonable amounts based on local and national industry standards
Professional Liability / Errors & Omissions	Reasonable amounts based on local and national industry standards
Directors and Officers (D & O)	Reasonable amounts based on local and national industry standards
Property Insurance	Insurable Value

Property insurance shall insure against loss or direct physical damage to the Facility's buildings, furnishings, equipment and machinery under standard all-risk coverage (including, but not limited to, fire, smoke, lightning, windstorm, explosion, aircraft or vehicle damage, riot, civil commotion, vandalism, and malicious mischief) and shall also include damage due to flood and earthquake.

ODC shall use reasonable commercial efforts to cause COMPANY to be named as an additional insured, with respect to this Agreement, under the comprehensive general and professional liability / errors & omissions policies. COMPANY's Administrator shall be named in the ODC Directors and Officers (D&O) policy. COMPANY's rights to invoke the protection of such policies shall be severable from and independent of ODC's rights and these policies shall not be terminable or non-renewable except upon thirty (30) days prior written notice to COMPANY. If such coverage is written on a claims-made form, following termination or expiration of this Agreement, ODC shall (i) continue such coverage to survive with COMPANY as an additional insured for the period of the applicable statute of limitations or (ii) shall provide an extended reporting endorsement (tail coverage) covering COMPANY for claims arising during the Term but not reported until after the termination or expiration of this Agreement. Should ODC change insurance companies during the Term, ODC shall maintain coverage which includes claims incurred but not reported under the prior coverage (prior acts coverage). No later than thirty (30) days following the Commencement Date and thirty (30) days following the end of each policy year, ODC shall give to COMPANY a copy of the endorsements naming COMPANY as an additional insured. It is the intention of the parties, subject to the approval of the insurer, that such insurance shall protect ODC and COMPANY and will be the primary insurance for such parties for any and all losses covered thereby, notwithstanding any insurance which may be maintained by COMPANY or its Affiliates covering any such loss. If permitted by their respective insurers, ODC and COMPANY agree to waive any right of contribution from the other party with respect to a loss covered under such policies (or their deduction).

(e) **COMPANY Insurance.** COMPANY shall secure and maintain, during the Term of this Agreement, at its own cost and expense, the following minimum insurance coverage:

Worker's Compensation	Statutory Amount
Comprehensive General Liability	Reasonable amounts based on local and national industry standards
Professional Liability / Errors & Omissions	Reasonable amounts based on local and national industry standards

COMPANY shall be required to provide professional liability / errors & omissions insurance covering all COMPANY employees and agents who render services at the Facility or to or for the benefit of ODC under this Agreement. COMPANY shall use reasonable commercial efforts to cause ODC to be named as an additional insured under the comprehensive general liability and the professional liability / errors & omissions policies with respect to this Agreement. ODC's rights to invoke the protection of such policies shall be severable from and independent of COMPANY's rights, and these policies shall not be terminable or non-renewable except upon thirty (30) days prior written notice to ODC. If such coverage is written on a claims-made form, following termination or expiration of this Agreement, COMPANY shall (i) continue such coverage to survive with ODC as an additional insured for the period of the applicable statute of limitations or (ii) shall provide an extended reporting endorsement (tail coverage) covering ODC for claims arising during the Term but not reported until after the termination or expiration of this Agreement. Should COMPANY change insurance companies during the Term, COMPANY shall maintain coverage which includes claims incurred but not reported under the prior coverage (prior acts coverage). No later than thirty (30) days following the Commencement Date and thirty (30) days following the end of each policy year, COMPANY shall give to ODC a copy of the endorsements naming ODC as an additional insured.

12. TERMINATION OF AGREEMENT.

This Agreement may be terminated prior to the expiration of the Term only as follows, and any such termination shall not affect any rights or obligations arising prior to the effective date of termination.

(a) **Breach.** In the event of a material breach of this Agreement which is not cured within the Cure Period set forth in Section 10, "Breach," or in the event of a breach as to which no Cure Period is provided by this Agreement, the non-breaching party may terminate this Agreement immediately upon written notice; provided that notice of termination for Breach must be given no later than thirty (30) days after the expiration of the Cure Period if one is applicable. This remedy shall be in addition to any other remedy available at law or in equity. Failure to terminate this Agreement shall not waive any breach of this Agreement.

(b) **Casualty.** In the event that the physical plant housing the Facility is destroyed or is so damaged that the Facility cannot continue operations and it is reasonably anticipated that Facility will not within ninety (90) days be able to resume full operation, then either party may terminate this Agreement upon no less than thirty (30) days notice without further liability to the other party.

(c) **Bankruptcy.** Either party may terminate this Agreement immediately or upon such notice as it may select following the bankruptcy of the other party; provided that notice of termination must be given no later than thirty (30) days after the date the terminating party acquires reasonably reliable knowledge of the bankruptcy. For the purpose of this section, "bankruptcy" shall mean (i) the filing of a voluntary or involuntary petition for bankruptcy or similar relief from creditors, (ii) insolvency, (iii) the appointment of a trustee or receiver, or (iv) any similar occurrence reasonably indicating an imminent inability to perform substantially all of such party's duties under this Agreement.

(d) **Regulatory Matters.** Either party may terminate this Agreement upon one hundred and twenty (120) days prior written notice to the other party in the event that any agency or bureau of any federal, state or local government issues an order, decree or ruling or takes any other action which materially and adversely affects the ability of any party to perform its obligations under this Agreement or otherwise prohibits or restricts the performance of any party obligations hereunder, including commencement of a legal proceeding or threat to commence such a proceeding on the basis of any party's participation in the ownership or operation of the Facility, or if any change in federal, state or local law or regulation or any interpretation thereof by any governmental agency or judicial body after the Effective Date would subject either party

to civil or criminal prosecution or other adverse proceeding on the basis of any person's participation in the ownership or operation of the Facility in the reasonable opinion of legal counsel selected by the parties who is experienced in health law matters, provided that the parties have negotiated in good faith to modify this Agreement to resolve any adverse effects created by such action and have failed to reach agreement as to an acceptable modification of terms within such one hundred and twenty (120) day period or have determined that compliance with such law or regulation is impossible or impractical.

13. EFFECTS OF TERMINATION.

In the event of the termination of this Agreement, COMPANY shall immediately be paid all undisputed fees heretofore earned and reimbursed for all expenses incurred for which reimbursement is required under this Agreement. The termination of this Agreement for any reason shall be without prejudice to any payments or obligations which may have accrued or become due hereunder prior to the date of termination or which may become due after such termination. Sections 9(b), 9(c), 9(d), 9(e) and Article 11 shall survive the expiration or termination for any reason of this Agreement.

14. NOTICES.

All notices permitted or required by this Agreement shall be in writing and deemed given immediately when delivered personally or sent by facsimile or deemed received five (5) business days after deposited in the United States mail, postage prepaid, return receipt requested, addressed to the other party at the address set forth below or such other address as the party may designate in writing

To COMPANY:

To ODC: Regional One Health
877 Jefferson Avenue
Memphis, TN 38103
Attn: Reginald W. Coopwood, MD
President & CEO

15. AFFILIATES.

As used in this Agreement with regard to a party, the term "Affiliate" means any person or entity (a "Parent") owning fifty percent (50%) or more of the voting membership interests of such party, any subsidiary entity of which such party owns fifty percent (50%) or more of the voting interests, and any subsidiary of a Parent of which the Parent owns fifty percent (50%) or more of the voting interests.

16. BINDING EFFECT.

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their permitted assigns, successors in interest, and successors in ownership, operation or control of the Facility.

17. CONFIDENTIALITY.

Neither party may disclose the terms of this Agreement to any other person or entity, except by mutual written consent of the parties or unless such disclosure is required by legal process, by law or regulation.

18. FORCE MAJEURE.

Notwithstanding any provision contained herein to the contrary, neither party shall be deemed to be in default hereunder for failing to perform or provide any of the services or other obligations to be performed or provided by said party pursuant to this Agreement if such failure is the result of any labor dispute, act of God, inability to obtain labor or materials, government restrictions or any other event which is beyond said party's reasonable control (an "Event of Force Majeure"). If the performance of any obligation shall have been delayed, interfered with or prevented by an Event of Force Majeure, then the parties shall take such steps as shall be reasonably available to them to remove the Event of Force Majeure or to mitigate the effect of such occurrence (except that labor disputes shall be settled at the sole discretion of the party affected). If an Event of Force Majeure (alone or extended by another Event of Force Majeure)

continues so that the mutual obligations remain suspended for a period of thirty (30) consecutive days and at the end of such period or at any time thereafter during which such suspension continues uninterrupted, either party, in the exercise of reasonable judgment, concludes that there is no likelihood of the Event of Force Majeure ending within the next thirty (30) days, then either party may terminate this Agreement without liability to the other party by giving to the other at least ten (10) days' written notice of its intention to terminate.

19. ASSIGNMENT.

Neither party may assign this Agreement, except with the prior written consent of the other party, except that either party may assign all of its rights and obligations hereunder to an Affiliate, or in connection with a sale of substantially all of the assets of such party, without the prior written consent of the other party. An assignment or attempted assignment in violation of this provision shall be null and void

20. MISCELLANEOUS.

(a) Headings. Section headings are for convenience of reference only and shall not be used to construe the meaning of any provision of this Agreement.

(b) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall together constitute one agreement.

(c) Severance. Should any part of this Agreement be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity and enforceability of the remaining portions.

(d) Authority. Each individual signing this Agreement warrants that such execution has been duly authorized by the party for which he or she is signing. The execution and performance of this Agreement by each party has been duly authorized by all applicable laws and regulations and all necessary corporate action, and this Agreement constitutes the valid and enforceable obligation of each party in accordance with its terms.

(e) Governing Law. This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance or otherwise, by the laws of the State of Tennessee,

and any applicable Federal laws. The parties agree that the proper venue for any legal proceedings arising out of this Agreement shall be in Shelby County, Tennessee. COMPANY consents to the personal jurisdiction of the United States District Court for the Federal District of Tennessee and to any court of record in Shelby County Tennessee.

(f) **Amendment.** This Agreement may not be modified, altered, amended or supplemented except in writing executed by the parties hereto.

(g) **Arbitration**. All disputes, claims, controversies and grievances arising out of or in connection with this Agreement or the breach thereof, including a dispute as to the scope or applicability of this agreement to arbitrate, which cannot be resolved by the parties within thirty (30) days after written notice by either party, shall be settled by binding arbitration by a single arbitrator in Memphis, Tennessee; provided, however, this provision shall not apply to any action seeking solely equitable relief. The arbitrator shall be a person who is experienced in health care matters. The arbitration shall be administered by JAMS pursuant to its Streamlined Arbitration Rules & Procedures. The cost of any arbitration proceeding under this provision shall be shared equally by both parties. The arbitrator shall state in writing the reasons for his or her award and the legal and factual conclusions underlying the award. The award of the arbitrator shall be final, and judgment upon the award may be entered in any state or federal court located in Tennessee. The parties agree that all of the negotiations and arbitration proceedings relating to such disputes and all testimony, transcripts and other documents relating to such arbitration shall be treated as confidential and will not be disclosed or otherwise divulged to any other person except as necessary in connection with such negotiations and arbitration proceedings. The prevailing party in any dispute relating to this Agreement shall be entitled to recover its reasonable costs and expenses incurred in prosecuting or defending such a dispute, including a reasonable attorney's fee, from the non-prevailing party.

(h) **Entire Agreement.** This Agreement constitutes the entire agreement of the parties hereto and supersedes all prior agreements, written or oral, and representations with respect to the subject matter hereof.

(i) **Assumption of Liabilities.** COMPANY shall not be liable for or assume responsibility for any of the debts, obligations or liabilities of the Facility due to its development or management of the Facility under the terms of this Agreement.

21. HIPAA AND BUSINESS ASSOCIATE AGREEMENT.

The parties agree that they have entered into a Business Associate Addendum to evidence their compliance with the provision of the Health Insurance Portability and Accountability Act of 1996, as amended ("HIPAA"), Privacy and Security Standards, and such Business Associate Addendum is attached hereto as Exhibit C and incorporated herein by reference.

[The next page is the signature page.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written to be effective as provided hereinabove.

Shelby County Health Care Corporation

d/b/a Regional One Health

877 Jefferson Avenue

Memphis, TN 38103

Attn: Reginald W. Coopwood, MD, President & CEO

Signature: _____

COMPANY:

Signature: _____

Exhibit A

PRE-OPENING SERVICES

COMPANY is willing to provide Pre-Opening Services to facilitate the opening of the Facility, if requested by the ODC. While not all services listed below may be requested, COMPANY will work with ODC, as requested, in the areas noted.

COMPANY may provide pre-opening consulting services to ODC to include: assistance to ODC's CON Consultant with preparation of the CON application, evaluation of organization issues, coordination with ODC's architect and facility development managers regarding facility design and construction, and preparing the Facility for Operation. COMPANY will assist the ODC with the formation of an Operations Committee to include physician leadership involvement throughout the development phase of the project.

Pre-Opening Team – COMPANY will coordinate with the ODC's Pre-Opening Team to provide input and assistance prior to opening the Facility.

- Facility Managers
- CON Consultant
- Architect
- Equipment Planners
- General Contractor and Subcontractors

Establish Outpatient Diagnostic Operations Committee (Chaired by ODC)

- Identify Physician and Administrative Leadership:
- Define Mission Statement
    - Pre-Opening Phase
    - Management Phase
- Organize Regular Meetings

Financial Analysis

- Monitor Capital & Operating Expenditures
- Prepare Final CON Budget Analysis
- Provide Procedure Specialty input to ODC's Managed Care Negotiator
- Update Volume & Procedure Projections
- Update Pro Forma Financials and Operating Budget

Facility Design and Construction Support

- Coordinate with APM to oversee Facility
- Routinely update and report progress to ODC seeking approval as needed
- Review Architect's Space Program and Design based on Specialty Case-mix and Projected Procedure Volumes
- Collaborate Design with APM, Architect and Contractor based upon Need Analysis
- Review Architect's Schematic Design and Floor Plans
- Seek participation and input from ODC Operations Committee and key physician leaders regarding Design Flow, Floor Plan, Equipment and Instrumentation Needs
- Monitor Project Budget
- Monitor Project Schedule and Design
- Conduct Regular Design and Equipment Review Meetings with the Equipment Planner
- Assist APM with Coordinate Activities of all Project Consultants (A&E, General Contractor, Equipment Planning, Telecommunications, etc.)
- Assist in Final Punch List Inspection and Post-Occupancy Review

Assure Timely Equipment Planning and Selection

- Prepare specific equipment list for CON
- Assure Determination of Physician Preferences
- Assure Determination of Price / Options
- Assure Determination of Space Requirements

Equipment Procurement & Financing

- Supervise Equipment Planner in Equipment Procurement
- Recommend Financing and Cost Effective Pricing Options
- Coordinate Equipment Procurement

Systems Design and Implementation

- Coordinate Information System Set-up
- Supervise Set-up of Site Specific Data Files such as Physician, Payer and Patient Charges
- Coordinate Information System Training with ODC Resources

Work with ODC's Legal Counsel to Coordinate the Production of Draft Operational Agreements:

- Professional Service Contracts
- Operating Contracts (Waste Disposal, Linen, Pest Control, Maintenance, Biomedical, Laboratory)
- Consulting Agreements
- Other Agreements

Business and Operating Plan

- Commencement of Operation
- Staff Planning
- Recruitment and Training
- Establish Revenue-Cycle Operating Procedures
- Establish Final Approved Procedure List
- Establish Physician Credentialing Criteria

Policies & Procedures

- Implement and Adapt all Outpatient Diagnostic Center Policies & Procedures as appropriate
- Provide Draft Outpatient Diagnostic Center Operating Policies and Procedures to be adapted to local preference as needed
- Provide Draft Outpatient Diagnostic Center Committee Policies
- Provide Suggested Forms
- Provide Suggested Job Descriptions

Licensure & Accreditation

- Coordinate Actions to Obtain Appropriate State Licenses and Approvals
- Coordinate Actions to Obtain Eligibility to Receive Payments from Medicare & Medicaid
- Coordinate JCAHO Accreditation Process with ODC

Exhibit B

MANAGEMENT SERVICES

From the commencement date and thereafter throughout the term, COMPANY shall provide, assist and/or oversee provision of the following services to ODC:

Operational Leadership:

- Management of day-to-day Facility operations through COMPANY's on-site Administrator
- Overall account responsibility through the designated COMPANY Executive
  - Regular attendance at on-site meetings
  - Unlimited electronic availability
  - Assign consulting resources
  - Communicate with owners
- Annual Management Plan
  - Defines the goals & objectives of the Facility
  - Annual performance report to ODC
- Monthly Executive Summaries
  - Overall progress of the Facility implementing the Management Plan
  - Performance of Facility management
  - Status of Customer relationships

Financial Support & Services:

- Preparation of Monthly Financial Statements & Reports
  - Income Statement
  - Budget variance explanation
  - Key financial / performance indicators & benchmarks
- Prepare Annual Budgets
  - Capital
  - Operating
- Oversee preparation of State required reports
- Facilitate independent coding audit / review

Operational Management:

- Review, recommend and manage capital equipment purchases
- Analyze, review and recommend new diagnostic procedures
- Monitor Inventory management
- Monitor medical supply purchases
- Monitor Group purchasing contracts & discount utilization
- Maintain and update charge master
- Support negotiation of managed care contracts
- Monitor cost per case benchmarks
- Monitor salary to net revenue benchmarks

- Monitor medical supply cost to net revenue benchmarks
- Oversee Accounts Payable
- Assist in negotiation of all external agreements (e.g. anesthesia, laundry & linen, maintenance, etc.)
- Mediate physician's issues as requested (e.g. supplies, equipment, personnel, etc.)

Regulatory, Accreditation & Licensure:

- Provide regular updates on regulatory issues effecting Outpatient Diagnostic Centers
- Provide regular updates on compliance and HIPPA issues effecting Outpatient Diagnostic Centers
- Maintain current standards for: Medicare, accrediting body (JCAHO) and state licensure
- Provide education to Facility personnel regarding all Medicare, state and accrediting body regulations
- Assist in preparation for Medicare, accreditation and licensure surveys
- Maintain and update policies & procedures as needed:
    - Administration
    - Medical Staff Committees
    - Medical Staff Credentialing
    - Emergency protocols
    - Human Resources
    - Infection Control
    - OSHA
    - Compliance & HIPAA
    - Medical Records & Coding
    - Environment of Care
    - Quality & Performance Improvement
    - Life Safety

Risk Management Program:

- Implement risk management program
- Perform periodic on-site risk analysis
- Develop education and training programs
- Provide guidance to committees as needed

Business Office & Billing Assistance:

- Implement admission & scheduling protocols
- Establish and implement pre-certification process
- Implement billing and charging practices
- Provide training and education
- Maintain updated fee schedules
- Implement and monitor performance benchmarks

Human Resources:

- Develop and maintain job descriptions

- Develop and maintain new employee orientation program
- Provide guidelines for mandatory employee education programs
- Oversee proper storage and maintenance of employee personnel records
- Develop performance evaluation tools
- Develop technical skills checklist
- Provide guidance for the employment, supervision and termination of all non-physician staff positions

Information Systems Support:

- Oversee development and/or coordination of all Management Information System functions:
    - Scheduling & patient registration
    - Insurance profiles & logs
    - Fee schedules
    - Electronic claims filing
    - Patient statements
    - Credential files
    - Clinical outcomes program
    - General Accounting Ledger
    - Accounts Payable / Accounts Receivable
    - Payroll
    - Inventory Management
    - Physician preference cards
    - Resource Utilization analysis
    - Payer mix analysis
    - Cost tracking modules

Exhibit C

BUSINESS ASSOCIATE ADDENDUM

THIS ADDENDUM ("Addendum") is entered into as of _____, 2014, and is attached to and forms a part of the Pre-Opening and Management Services Agreement of even date herewith (the "Agreement") between Regional One Health Imaging, LLC ("Covered Entity") and COMPANY (the "Business Associate"). This Addendum amends and supplements the terms of the Agreement; and the parties agree that in the event of any conflict or inconsistency between this Addendum and the Agreement regarding the disclosure and use of Protected Health Information, as defined in 45 C.F.R. § 164.501 of the Privacy Rules ("PHI"), the provisions of this Addendum shall be controlling.

WHEREAS, the Covered Entity is subject to the federal regulations promulgated under the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 as amended ("HIPAA"), including the standards for privacy of individually identifiable health information set forth in 45 C.F.R. Parts 160 and 164, subparts A and E (the "Privacy Rules") and security standards set forth in 45 C.F.R. Parts 160, 162 and 164 (the "Security Rules"); and

WHEREAS, Business Associate provides services for or on behalf of the Covered Entity which involve or may involve Business Associate's having access to, receiving or creating PHI, and the parties wish to set forth Business Associate's obligations with respect to PHI as required by and in compliance with the Privacy Rules.

NOW THEREFORE, the parties hereto agree as follows:

1. Business Associate agrees to keep PHI strictly confidential and shall not use or disclose PHI except as permitted herein or as required by law. Business Associate may use or disclose PHI as may be necessary for the performance of Business Associate's obligations on behalf of the Covered Entity pursuant to the Agreement; provided, however, that Business Associate may not make any use or disclosure of PHI that would not be permissible under the Privacy Rules if made by the Covered Entity.

2. Notwithstanding Section 1 above, Business Associate may also use or disclose PHI for the proper management and administration of Business Associate or to carry out Business Associate's legal responsibilities, provided that Business Associate shall only disclose PHI for such purposes if: (i) the disclosure is Required by Law, as defined in the Privacy Rules; or (ii) Business Associate obtains reasonable assurances from the person to whom PHI is disclosed that it will be held confidentially and used or further disclosed only for the purposes for which it was originally disclosed by Business Associate and that Business Associate will be notified promptly of any known instances in which the confidentiality of the information has been breached. To the extent Business Associate uses one or more subcontractors or agents to provide services under the Agreements, and such subcontractors or agents receive or have access to PHI, Business Associate agrees that it will ensure that each such subcontractor or agent shall agree, in writing, to similar restrictions, terms and conditions that apply to Business Associate in this Addendum.

3. Business Associate agrees that it shall request from the Covered Entity, and disclose to any third parties, only the minimum PHI necessary to perform a specific function for or on behalf of the Covered Entity. Business Associate shall maintain reasonable safeguards and take such steps as are reasonably necessary to prevent the unauthorized use, dissemination of or access to PHI and agrees to promptly report to the Covered Entity any unauthorized use or disclosure of PHI of which Business Associate becomes aware. In addition to notifying Covered Entity, Business Associate agrees to mitigate, to the extent practicable, any harmful effect known to Business Associate of a use or disclosure of PHI by Business Associate in violation of this Addendum.

4. Business Associate agrees to make available to the Covered Entity and the Department of Health and Human Services ("DHHS"), and their respective agents, in the time and manner designated by DHHS, any internal policies, procedures, books and records relating to Business Associate's use and disclosure of any PHI created or received by Business Associate in connection with its obligations under the Agreements, for the purpose of determining the Covered Entity's compliance with applicable law.

5. If Business Associate maintains PHI in a Designated Record Set, as defined in 45 C.F.R. § 164.501, Business Associate shall (i) provide the subject of any PHI access to his/her PHI, and (ii) incorporate amendments or corrections to the PHI maintained by Business Associate in accordance with the requirements of the Privacy Rules as set forth in 45 C.F.R. §§ 164.524 and 164.526 and any other applicable laws. Business Associate shall cooperate with the Covered Entity in fulfilling similar requests for such access and amendments made by an individual to the Covered Entity in the time and manner designated by the Covered Entity.

6. Business Associate agrees to document any disclosures of PHI and information related to such disclosures as would be required by Covered Entity to respond to a request by an individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. §164.528. Business Associate shall provide Covered Entity or the requesting individual with the foregoing information in the time and manner designated by the Covered Entity to enable Covered Entity to respond to a request by an individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. § 164.528. Business Associate shall maintain a process to provide this accounting of disclosures for as long as Business Associate maintains PHI received from, or on behalf of, Covered Entity.

7. Business Associate shall, within ten (10) business days of the expiration or sooner termination of the Agreements, return to the Covered Entity or destroy, as directed by the Covered Entity, all PHI and all copies and reproductions thereof maintained by Business Associate or its agents and subcontractors, and shall retain no copies of such information. An authorized representative of Business Associate shall certify in writing to Covered Entity, within ten (10) business days from the date of termination or other expiration of the Agreements, that all PHI has been returned or destroyed, and that Business Associate no longer retains any such PHI in any form; *provided, however* that in the event that the parties agree that such destruction or return is not feasible, the parties shall agree to continue to extend the protections of this Addendum to the PHI and to limit Business Associate's further use or disclosure of such information to those purposes that make its return or destruction infeasible, for so long as Business Associate maintains such PHI.

8. In the event Business Associate conducts any Transaction, as defined under 45 C.F.R. Part 162, in the performance of its functions on behalf of the Covered Entity under the Agreements, using electronic media and for which a standard has been adopted under the federal transaction and code set standards promulgated under HIPAA, Business Associate will conduct such Transaction or will require its agents or subcontractors, if applicable, to conduct such Transaction in accordance with the applicable requirements of 45 C.F.R. Part 162.

9. Business Associate agrees implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of the electronic PHI that Business Associate creates, receives, maintains or transmits on behalf of Covered Entity in accordance with the applicable requirements of 45 C.F.R. Part 164 of the Security Rules. Business Associate shall ensure that any agent, including any subcontractor, to whom it provides electronic PHI agrees in writing to implement reasonable and appropriate safeguards to protect such PHI. Business Associate shall promptly report to Covered Entity any security incident of which it becomes aware.

10. Upon Covered Entity's knowledge of a material breach by Business Associate of its obligations under this Addendum, Covered Entity shall provide an opportunity for Business Associate to cure the breach. If Business Associate does not cure the breach within the time specified by Covered Entity, then Covered Entity may immediately terminate the Agreements upon written notice to the Business Associate. If Business Associate has breached a material term of this Agreement and cure is not possible. Covered Entity may immediately terminate the Agreements. The provisions of this Addendum shall survive termination of the Agreements with respect to any PHI retained by Business Associate following termination.

11. Business Associate acknowledges and agrees that due to the nature of the PHI, there can be no adequate remedy at law for any breach of its obligations hereunder, that any such breach may constitute a breach resulting in irreparable harm to the Covered Entity, and therefore that upon any such breach or overt threat thereof, the Covered Entity shall be entitled to an injunction and other appropriate equitable relief in addition to whatever remedies it may have at law, without posting a bond or other security.

12. All PHI to which Business Associate has access under this Addendum shall be and remain the property of the Covered Entity.

13. Business Associate agrees to indemnify, defend and hold harmless the Covered Entity and its members, managers, employees and other agents and their respective affiliates from and against any and all loss, liability, damage, cost and expense (including reasonable attorney fees and expenses) resulting or arising from any use or disclosure of PHI by Business Associate or Business Associate's employees or agents in violation of this Addendum or applicable law.

14. This Addendum shall be governed by and construed in accordance with the laws of the State of Tennessee. This Addendum states the entire understanding of the parties concerning the terms and conditions governing the disclosure and use of PHI and supersedes any other agreement concerning the subject matter hereof. This Addendum may not be modified or amended except by a writing executed by both parties; provided, however, that the Covered Entity may amend this Addendum upon written notice to Business Associate in the event that there are any changes in the provisions or interpretations of the Privacy Rules or Security Rules

or any other regulations promulgated under HIPAA or other applicable law to the extent that such amendments are reasonably necessary or appropriate to comply with such changes. Business Associate may not assign or delegate any duties under this Addendum without the prior written consent of the Covered Entity. Any assignment or delegation or any purported assignment or delegation or in violation of this provision shall be void and of no effect.

IN WITNESS WHEREOF, the parties have executed this Addendum by their duly authorized representatives as of the date first written above.

REGIONAL ONE HEALTH IMAGING, LLC

By: _____

Its

COMPANY

By: _____

Its

LEASE AGREEMENT

by and between

REGIONAL ONE RH MOB 1 SPE, LLC

a Delaware limited liability company

("LESSOR")

and

SHELBY COUNTY HEALTH CARE CORPORATION

a Tennessee nonprofit corporation
doing business as Regional One Health

("LESSEE")

SUMMARY OF BASIC LEASE TERMS

Effective Date:	7th day of March, 2014
Building:	Quince Centre
Building Address:	6555 Quince Road, Memphis, Tennessee 38119
Initial Lease Term:	Commencing on the Phase I Rent Commencement Date and expiring one hundred twenty (120) months after the latest to occur among the Phase I Rent Commencement Date, the Phase II Rent Commencement Date, and the Phase III Rent Commencement Date
Renewal Terms:	Eight (8) successive renewal terms of sixty (60) months each
Security Deposit:	-0-
Lessee Improvement Allowance:	$110.00 per rentable square foot
PHASE I	
Phase I Rent Commencement Date:	The closing date of that certain Purchase and Sale Agreement dated December 12, 2013, by and between Lessor, as successor in interest to Regional Med Quince Property, LLC, as purchaser, and 6555 Quince Building Owner, LLC, and Quince Lot Owner, LLC, collectively, as seller, as amended by that certain First Amendment and Reinstatement of Purchase Agreement (the "Purchase Agreement")
Premises Rentable Square Feet:	16,161 square feet
Annual Base Rent:	$387,864.00 ($24.00/square foot)
Monthly Base Rent:	$32,322.00
Building Rentable Square Feet:	112,000 rentable square feet
Lessee's Proportionate Share:	14.43%
PHASE II (superseding Phase I)	
Phase II Rent Commencement Date:	First day of the second Lease Year
Premises Rentable Square Feet:	26,161 square feet
Annual Base Rent:	$640,421.28 ($24.48/square foot)
Monthly Base Rent:	$53,368.44
Building Rentable Square Feet:	112,000 rentable square feet

Lessee's Proportionate Share:	~~23.36%~~ _____ percent (__%)
PHASE III	
Phase III Rent Commencement Date:	First day of third Lease Year
Premises Rentable Square Feet:	35,000 square feet
Annual Base Rent:	$873,950.00 ($24.97/square foot)
Monthly Base Rent:	$72,829.17
Building Rentable Square Feet:	112,000 square feet
~~Lessee's Proportionate Share:~~	~~31.25%~~
Annual Base Rent Escalator through expiration of Term:	Two percent (2%) of prior years' Base Rent

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[to be completed upon final form lease]

LEASE AGREEMENT
QUINCE BUILDING

This **LEASE AGREEMENT** (this "Lease") is made and entered into as of the 7th day of March, 2014, by and between REGIONAL ONE RH MOB 1 SPE, LLC, a Delaware limited liability company ("Lessor"), and SHELBY COUNTY HEALTH CARE CORPORATION, a Tennessee nonprofit corporation doing business as Regional One Health ("Lessee").

WHEREAS, Lessee desires to lease from Lessor and Lessor desires to lease to Lessee 35,000 Rentable Square Feet in the Building subject to the terms and conditions set forth herein;

WHEREAS, the parties hereto have agreed that Lessee shall lease 16,161 square feet in the Building (the "Phase I Space") during the first Lease Year of the Initial Term (as hereinafter defined) and shall, as of the first day of the second Lease Year of the Initial Term, add 10,000 square feet (the "Phase II Additional Space") to the Premises Rentable Square Footage (as hereinafter defined); and

WHEREAS, the parties hereto have further agreed that Lessee shall, as of the first day of the third Lease Year of the Initial Term, add 8,839 square feet (the "Phase III Additional Space") to the Premises Rentable Square Footage; and

NOW, THEREFORE, for and in consideration of the rents, mutual covenants and agreements set forth herein, the adequacy and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I. GENERAL PROVISIONS

Section 1.01 Binding Lease Obligation.

In consideration of Lessee's covenants, conditions and agreements in this Lease, including Lessee's agreement to pay Rent (as defined in Section 4.01 hereof), Lessor does hereby lease to Lessee and Lessee does hereby lease and accept from Lessor the Premises (as defined in Section 2.01 hereof), with the nonexclusive right, in common with other Lessees of the Building (as defined in Section 2.02 hereof), to use all Common Areas (as defined in Section 2.03 hereof). Lessee's use of the Premises and Common Areas shall be subject to the terms and conditions of this Lease. This Lease is a legal, valid and binding obligation of Lessor and Lessee enforceable against Lessor and Lessee and their respective heirs, executors, administrators, successors and permitted assigns of the parties, upon the terms and conditions set forth in this Lease; provided, however, that the effectiveness of this Lease is contingent upon Lessor becoming the owner of the Building on or before March 31, 2014; provided, further, that should Lessor not become the owner of the Building on or before March 31, 2014, this Lease shall be deemed void *ab initio*, and the parties hereto shall have no liability or obligations hereunder. Lessor has made no representations or promises with respect to the Building, the Premises or this Lease except as expressly set forth herein or in the Work Letter (as defined in Section 2.04 hereof).

Section 1.02 **Security Deposit**

With the execution of this Lease by Lessee, Lessee has deposited with Lessor the sum of zero dollars ($0) as security for the punctual performance by Lessee of each and every obligation of Lessee under this Lease ("Security Deposit").

ARTICLE II. PREMISES

Section 2.01 **Premises and Measurement of Exact Area Leased**

"Premises" shall mean the property leased by Lessee under this Lease. The term "rentable square footage" of the Premises shall mean the Premises Rentable Square Feet set forth in the Summary of Basic Lease Terms for each of Phase I, Phase II, and Phase III time periods during the Initial Term, and Lessee's Proportionate Share (as defined in Section 4.06 below) for purposes of Qualified Operating Expenses (as defined in Section 4.06 below), is the Lessee's Proportionate Share in the respective percentages set forth in the Summary of Basic Lease Terms for each of Phase I, Phase II, and Phase III time periods during the Initial Term.

Section 2.02 **Building**

The "Building" or "Property" shall mean the entire building comprised of approximately 112,000 rentable square feet (the "Rentable Square Footage of the Building") as set forth in the Summary of Basic Lease Terms, together with the parking areas (except those parking areas marked reserved or for the exclusive use of the individual or company named) and driveways serving the Building and parking areas and all grounds, other improvements and landscaped areas on the tax parcel on which the Building is located. The available parking for Lessee will be no less than 5.0 parking spaces for each 1,000 square feet of rentable square footage of the Premises. Lessor and Lessee agree to negotiate diligently and in good faith with respect to which portion of such available parking spaces will be designated for the exclusive use of Lessee and where the designated spaces will be located.

Section 2.03 **Use of Common Areas**

The occupancy by Lessee of the Premises shall include the nonexclusive use of all areas within the Building that are not held for exclusive use by persons entitled to occupy space and all other appurtenant areas and improvements provided by Lessor for the common use of Lessor and the Building's tenants and their respective employees and invitees (the "Common Areas"), subject, however, to compliance with all Applicable Laws (as defined in Section 5.02 hereof) and all Restrictions (as defined in Section 5.02 hereof). Lessee shall not be required to expend money or take action to make any alterations, additions, improvements, or replacements on or to the Premises on account of any such rules or regulations established by Lessee pursuant to this Lease. Further, Lessor will not establish rules or regulations that interfere unreasonably with Lessee's use and enjoyment of the Premises. Lessor will use its best efforts to encourage compliance with the rules and regulations by other tenants and occupants of the Building and will enforce the rules and regulations on a uniform and non-discriminatory basis. In the case of any conflict between any rules and regulations established by Lessor and this Lease, this Lease shall control. Lessor shall at all times during the Lease Term have exclusive control over the Common Areas. Lessee shall keep the Common Areas clear of any obstruction or unauthorized use caused by Lessee or Lessee's agents, employees, contractors and invitees. Lessor may temporarily close any portion of the Common Areas for any reasonable purpose and may make such modifications to the Common Areas as Lessor reasonably desires. Common Areas shall not include the roof of the Building and except as otherwise provided

in this Lease, Lessee shall not locate any equipment or improvements on all or any portion of the roof of the Building for any purpose without Lessor's prior written consent.

Section 2.04 **Lessor's Work**

(a) Lessor shall, at its sole cost and expense, diligently pursue to completion any and all work, construction, and things necessary to prepare the Building's shell and Common Areas for use as a first class medical office building, in accordance with the Final Plans (as approved by Lessor and to be attached hereto as **Exhibit B-1**) and the work letter attached hereto as **Exhibit B** (the "Work Letter"), including, without limitation, all architecture and engineering work (other than preliminary design work performed by Lessee), and obtaining and paying for all permits, fees and governmental approvals related to the scope of work (the foregoing work, construction and necessary things denominated in the Work Letter as lessor's work are, collectively, the "Lessor's Work"). Lessor shall complete the Lessor's Work in a good and workmanlike manner, with due diligence, in accordance with the Final Plans and Work Letter, and by the Dates of Delivery as defined and set forth below, subject only to delays caused by an act of God, war, an act of terrorism, fire, windstorm, flood, unforeseeable delays or restrictions imposed by governmental bodies, or Lessee-caused delay, in each case beyond the reasonable control of Lessor. Any such delay shall operate to extend the applicable Date of Delivery for a time equal to the continuous duration of any of the foregoing delays. Lessor and Lessee shall each cause their respective contractors to coordinate their work in order to increase efficiencies and avoid problems associated with improper coordination of work.

(b) Except as provided herein, Lessor agrees to construct and pay all costs necessary to prepare the Premises and complete the Lessor's Work.

(c) Lessor and Lessee shall each participate in pre-construction and construction documentation to facilitate the architectural plans and construction build out. Each party shall use reasonable care and diligence in such participation to avoid unreasonable delays or expenses. The parties agree and acknowledge that the following items must be approved in writing in advance by Lessee: the selection of the general contractor, the selection of the architect, any and all applications for payment submitted by the general contractor or otherwise, any and all change orders, and all plans (and revisions thereto) for Lessor's Work.

(d) After the execution of this Lease, certain critical path items ("Milestone Items") will be designated to be reviewed and inspected by Lessee and Lessee's consultant before work progresses or is covered. During the performance of the Lessor's Work, Lessor will notify Lessee at least five (5) days before the Lessor's Work progresses to any of the Milestone Items. Such notification from Lessor to Lessee shall specify the applicable Milestone Item and a seven (7) day period when such Milestone Item will be available for review and inspection by Lessee and Lessee's consultant. Lessor shall not cover any Milestone Item or cover or complete any other work that would prevent Lessee and Lessee's consultant from reviewing and inspecting such Milestone Item without Lessee's prior written approval; provided, however, that if neither Lessee nor Lessee's consultant reviews or inspects any such Milestone Item within the applicable seven (7) day period described in the notice, the Lessor may cover such Milestone Item or proceed with other work that may prevent the review and inspection of such Milestone Item.

(e) For purposes of this Lease, the "Date of Delivery" for the Phase I Space, the Phase II Additional Space, or the Phase III Additional Space, as the case may be, shall mean the first (1st) weekday following the date that the applicable Lessor's Work is substantially complete. As used herein, the term "substantially complete" shall mean, notwithstanding Lessee's payment of Rent for or possession of the Phase I Space, the Phase II Additional Space, or the Phase III Additional Space, as the case may be, that Lessor's Work for such space has been completed in accordance with the Work Letter and the Final Plans, with the exception of minor items which can be fully completed within thirty (30) days and will not materially interfere with the progress of Lessee's Work. Such minor items shall be diligently pursued to completion by Lessor.

Upon completion of the Work Letter by Lessor and Lessee, the Dates of Delivery below shall be supplemented to reflect the agreement of the parties:

Phase I Space: _____ days following approval of _____

Phase II Additional Space: _____

Phase III Additional Space: _____

Section 2.05 Acceptance of Premises

(a) Lessee agrees that no representations, statements or warranties expressed or implied have been made by or on behalf of Lessor in respect of the Premises except as contained in this Lease. Except for Lessor's Work, Lessee agrees that Lessor shall not be obligated to make any improvements or alterations to the Premises prior to the Date of Delivery for the Phase I Space. Upon taking possession of each of the Phase I Space, the Phase II Additional Space, and the Phase III Additional Space, and determining that the Lessor's Work applicable to such space is substantially complete, Lessee shall, at each such time, execute, acknowledge and deliver to Lessor the written statement attached hereto as **Exhibit B-2** (a "Date of Delivery Certificate") confirming the Date of Delivery for such space. By executing a Date of Delivery Certificate for each of the Phase I Space, the Phase II Additional Space, and the Phase III Additional Space, respectively, Lessee shall be deemed to have (i) accepted the premises that is the subject of such Date of Delivery Certificate in its condition and state of repair existing at the time of Lessee's execution of such Date of Delivery Certificate, and (ii) acknowledged that the Lessor's Work for such space substantially conforms to the plans and specifications for such work, except for minor items which can be fully completed within thirty (30) days and will not materially interfere with the progress of Lessee's Work.

(b) Lessor's Work shall be completed (i) free of defects in design, materials, or workmanship; (ii) in a good and workmanlike manner by competent and supervised workers and suppliers; (iii) in accordance with the Final Plans, subject to minor deviations that do not affect the usefulness or quality of the improvements; and (iv) in accordance with all federal, state, and local laws, and all applicable covenants, conditions, and restrictions of record. Lessor shall cause the prompt repair or replacement of any defects in material or workmanship in Lessor's Work, if any, upon receipt of written notification of such defect from Lessee within the period of eighteen (18) months after the date of Lessee's delivery of the Date of Delivery Certificate applicable to such defect in Lessor's Work. Lessee's sole and exclusive remedy against Lessor shall be for the repair and replacement of defects of material and workmanship as provided herein, and Lessor shall not be responsible for any defect of any nature in Lessor's Work performed by

Lessor of which Lessor is not so notified within such eighteen (18) month period following delivery of the applicable Date of Delivery Certificate. LESSOR MAKES NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, IN CONNECTION WITH LESSOR'S WORK EXCEPT THE WARRANTIES EXPRESSLY SET FORTH IN THIS **SECTION 2.05(b)**. TENANT'S SOLE REMEDY FOR THE BREACH OF ANY APPLICABLE WARRANTY SHALL BE THE REMEDY SET FORTH IN THIS **SECTION 2.05(b)**. Lessee agrees that no other remedy, including, without limitation, incidental or consequential damages for lost profits, injury to person or property, or any other incidental or consequential loss shall be available to Lessee. Notwithstanding anything to the contrary set forth herein, if repairs are required to be made to any of Lessor's Work within the applicable warranty period or if Lessor's contractor would otherwise be responsible for such repairs under the applicable construction contract, then Lessor shall be responsible for such repairs and Lessee shall have no obligation for such repairs.

Section 2.06 Lessee's Work

All items in the Work Letter that are designated as lessee improvements, including all work necessary to complete interior finishing improvements for medical office space (collectively, "Lessee's Work"), shall be pursued diligently to completion, in a good and workmanlike manner, by Lessee after Lessee executes and delivers the Date of Delivery Certificate for such portion of the Premises, subject to force majeure delays. Lessor shall contribute a maximum amount of $110.00 per rentable square foot of the Premises as Lessor's share of the cost for Lessee's Work ("Lessee Improvement Allowance") as set forth in the Summary of Basic Lease Terms. To the extent the actual cost of Lessee's Work exceeds the Lessee Improvement Allowance (such excess amount being hereinafter referred to as "Lessee's Costs"), Lessee shall be responsible for such Lessee's Costs and shall remit the same to Lessor as provided in the Work Letter. Except as otherwise expressly provided in this Lease, Lessor shall not be required to make any alterations, improvements, additions, repairs or replacements to the Premises.

ARTICLE III. LEASE TERM

Section 3.01 **Effective Date and Term**

The initial term of this Lease (the "Initial Term") begins on the Phase I Rent Commencement Date (as defined in **Section 4.02** hereof) and ends on the expiration date, unless earlier terminated as provided herein, as follows (the "Expiration Date"): the Expiration Date shall be the day which is one hundred twenty (120) months following the last to occur of the Phase I Rent Commencement Date, the Phase II Rent Commencement Date (as defined in **Section 4.02** hereof), and the Phase III Rent Commencement Date (as defined in **Section 4.02** hereof).

Section 3.02 ***Extension of Term***

Provided that Lessee is not in default of this Lease at the time of exercise of its option to extend the Term of the Lease, and that Lessee shall not have had in excess of six (6) occurrences of an Event of Default (whether or not cured) during the then current Term, Lessee shall have the option to extend the Term of this Lease for eight (8) successive renewal terms of sixty (60) months each, as set forth in the Summary of Basic Lease Terms (each a "Renewal Term," and all such Renewal Terms for which an option is exercised, together with the Initial Term, shall constitute the "Term"). If Lessee elects to exercise its right to extend the Term, Lessee shall provide written notice to Lessor, in accordance with Section 17.13, at

least twelve (12) months prior to the then current Expiration Date or expiration of the then current Renewal Term, as applicable. Failure of Lessee to provide such written notice shall preclude the exercise of the then applicable renewal option and any subsequent renewal options. Lessee agrees that Lessee's exercise of any option to extend the Term shall not impose any additional requirements or obligations upon Lessor other than those set forth herein, the Premises being leased upon renewal "As Is."

Section 3.03 **Surrender at End of Term**

Lessee shall quit and surrender the Premises to Lessor at the end of the Term in a condition substantially similar to that as existed as of Lessee's Date of Occupancy (ordinary wear and tear and damage by casualty excepted), together with all installations, alterations, additions, and improvements, except that Lessee's trade fixtures shall remain Lessee's property and shall be removed by Lessee without damage to the Premises.

Section 3.04 **Holdover**

If Lessee retains possession of the Premises or any part thereof after expiration or earlier termination of the Term, then Lessor may, at its option, serve written notice upon Lessee that such holding over constitutes any one of (i) creation of a month-to-month tenancy, or (ii) creation of a tenancy at sufferance, in any case upon the terms and conditions set forth in this Lease; provided, however, that such tenancy shall be at a monthly rental rate (or prorated daily rental rate under (ii)) which is one hundred fifty percent (150%) of the amount of monthly Base Rent payable by Lessee for the last full month prior to the expiration of the Term, plus all Additional Rent. If no such notice is served, then a tenancy at sufferance shall be deemed created at the Base Rent plus Additional Rent described in the preceding sentence. Lessee shall also pay to Lessor, as Additional Rent, all damages sustained by Lessor resulting from retention of possession by Lessee including the loss of any proposed subsequent tenant for any portion of the Premises, together with interest thereon at the Default Rate (as defined in Section 4.05 hereof) from the date such damages are incurred until paid in full. The provisions of this Section 3.04 shall not constitute a waiver by Lessor of any right of re-entry as herein set forth; nor shall receipt and/or acceptance of any Rent or any other act in apparent affirmation of the tenancy operate as a waiver of Lessor's right to terminate this Lease for a breach of any of the terms, covenants, or obligations herein on Lessee's part to be performed.

ARTICLE IV. RENT & PAYMENT OF RENT AND OTHER AMOUNTS.

Section 4.01 **Rent**

Lessee shall pay Lessor, at Lessor's office or at such other place as Lessor may from time to time designate in writing, the sum of Base Rent and Additional Rent (individually or collectively referred to from time to time as "Rent") during the Term according to the provisions set forth herein.

(a) Base Rent. Beginning on the Phase I Rent Commencement Date and continuing for the Initial Term of this Lease, Lessee shall pay to Lessor the amount of $24.00 per rentable square foot of space per annum (as it may be increased pursuant hereto, the "Base Rent"), one-twelfth ($1/12^{th}$) of which shall be paid in advance on the first day of each month (the "Monthly Base Rent") and shall be prorated for any portion of a month at the beginning or end of the Initial Term. Lessor and Lessee agree that the Base Rent shall be increased annually on the first day of each Lease Year (as hereinafter defined), beginning with the second Lease Year, by an amount equal to two percent (2%) of the Base Rent for the previous Lease Year as set forth in the Summary of Basic Lease Terms, without regard to rental concessions or

abatements, if any. The term "Lease Year", as used herein, shall mean the twelve month period commencing on the Phase I Rent Commencement Date, or, if the Phase I Rent Commencement Date is not on the first day of a calendar month, commencing on the first day of the first calendar month immediately following the Phase I Rent Commencement Date, and each successive twelve month period thereafter during the Term of the Lease. With the execution of this Lease, Lessee has deposited with Lessor the first month's Monthly Base Rent.

(b) Additional Rent. Beginning upon the Phase I Rent Commencement Date and continuing for the full Term of this Lease, Lessee shall pay Lessor for the expenses of the Building incurred by Lessor and for other charges expressly designated as payable to Lessor by Lessee under this Lease and designated as additional rent ("Additional Rent"). Additional Rent for the expenses of the Building is determined by multiplying Lessee's Proportionate Share of the Building by the Building's Qualified Operating Expenses. Lessee agrees to pay Additional Rent in monthly installments, on an estimated basis, during each year of the Term of this Lease. Section 4.06 and Section 4.07 set forth Lessor's procedure for determining the estimated amount of Additional Rent and the procedure for reconciling the estimated payments with the actual expenses following the end of each succeeding twelve month calendar period starting January 1 and ending December 31 (a "Calendar Year").

(c) Renewal Base Rent. Lessor and Lessee agree that the Base Rent during any Renewal Term (as it may be increased pursuant hereto, the "Renewal Base Rent") shall be increased annually on the first day of each Lease Year during such Renewal Term, beginning with the second Lease Year of the first Renewal Term, by an amount equal to two percent (2%) of the Renewal Base Rent for the previous Lease Year. One-twelfth ($1/12^{th}$) of the applicable Renewal Base Rent shall be paid in advance on the first day of each calendar month (the "Monthly Renewal Base Rent"). Renewal Base Rent for each Renewal Term shall be determined as follows:

(i) Lessor and Lessee will have thirty (30) days after Lessor receives Lessee's notice of its exercise of a Renewal Term within which to agree on the then current market rental rate of the Premises, the rental increase, if any, to the rent during such Renewal Term, and a lessee improvement allowance to be included in the Renewal Base Rent. If they agree on all such matters, they will amend this Lease by stating the rent for the applicable Renewal Term.

(ii) If the parties cannot reach agreement on the rent for the Renewal Term, such rent shall be the then current market rental rate of the Premises, determined in accordance with this **Section 4.01(c)(ii)**. Within fourteen (14) days after the expiration of the thirty (30) day period, Lessor and Lessee will each appoint a real estate broker with at least five (5) years' full-time commercial brokerage experience in the general area in which the Premises are located to appraise the then current market rental rate of the Premises, inclusive of a lessee improvement allowance. The "then current market rental rate of the Premises" means what a lessor under no compulsion to lease the Premises and a lessee under no compulsion to lease the Premises would determine as rent, inclusive of a lessee improvement allowance, for the Renewal Period, as of the commencement of the Renewal Period, taking into consideration the quality, size, design, demand and location of the Premises, and rent within the Building and for comparable buildings located in the vicinity of the Building. The brokers appointed pursuant to this section will meet promptly and attempt to set the then current market rate of the Premises. If they are unable to agree within

thirty (30) days after the second broker has been appointed, they will jointly select a third broker meeting the qualifications stated in this section within ten (10) days after the last day the two brokers are given to set the then current market rental rate of the Premises. Lessor and Lessee will each bear one-half (½) of the cost of appointing the third broker and of the third broker's fee. The brokers may not have previously acted in any capacity for Lessor, Lessee or any of their affiliates.

A majority of the three (3) brokers shall set the then current market rental rate of the Premises within thirty (30) days after selection of the third broker. If two brokers cannot agree on the then current market rental rate of the Premises, then the appraisal that is closest to the median of the three appraisals will be the then current market rental rate of the Premises.

Section 4.02 Rent Commencement Dates

Lessee agrees to begin paying Rent on the closing date of the transactions contemplated in the Purchase Agreement (the "Phase I Rent Commencement Date"). As used herein, the term "Phase II Rent Commencement Date" shall mean the first day of the second (2nd) Lease Year in the Initial Term, and the term "Phase III Rent Commencement Date" shall mean the first day of the third (3rd) Lease Year in the Initial Term. Lessor shall not be liable in any manner for the failure, for any reason, to deliver the Phase I Space by the Phase I Rent Commencement Date stated above, and this Lease shall not be void or voidable as a result of such failure.

Section 4.03 Payment of Rent

All checks representing Lessee's payment of Base Rent, Additional Rent, and all other sums and charges due under this Lease shall be made payable to Lessor and shall be mailed to Lessor at such address as Lessor shall designate. Payments may also be made to Lessor by ACH or EFT, at Lessee's option.

Section 4.04 Covenant to Pay Rent

Lessee hereby covenants and agrees to pay to Lessor all such Base Rent, Additional Rent and other sums and charges without any demand or notice and without counterclaim, set-off or deduction for any reason whatsoever, except as specifically provided in this Lease. No payment by Lessee or receipt by Lessor of a lesser amount than the Rent herein stipulated shall be deemed to be other than on account of the earliest Rent due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Lessor may accept such check or payment without prejudice to Lessor's right to recover the balance of such Rent or pursue any other remedy provided in this Lease.

Section 4.05 Late Charges

In the event Lessee shall fail to pay any Rent or other monies due hereunder within five (5) days after the same becomes due and payable, there shall be chargeable on the unpaid amount a service charge of five percent (5%) for each month or portion thereof during which the same remains unpaid (the "Late Charge"). The payment of a Late Charge shall not excuse or cure any default by Lessee under this Lease and shall be payable by Lessee to Lessor in addition to any other rights and remedies Lessor may have for such late payment.

Section 4.06 **Additional Rent Definitions**

In addition to annual Base Rent, Lessee shall pay to Lessor an amount equal to Lessee's Proportionate Share of Qualified Operating Expenses (as defined in paragraph 4.06(b) below), defined as Additional Rent in Section 4.01(b) above. Additional Rent shall be the amount equal to the total dollar amount of Qualified Operating Expenses for each Calendar Year multiplied by Lessee's Proportionate Share provided, however, that in any year when the Rented Area in the Building (as hereinafter defined) falls below ninety-five percent (95%) of the total Rentable Square Footage of the Building, then the Qualified Operating Expenses attributable to all Lessees of the Building shall be the amount that Lessor, in its reasonable discretion, estimates would be the actual Qualified Operating Expenses equitably apportioned among all existing Lessees, based on rentable square footage leased in the Building. For purposes of this Section 4.06, "Rented Area in the Building" refers to the aggregate, from time to time, of rentable square feet under active lease(s) within the Building.

This Section sets forth the definitions of each of the terms for calculating Additional Rent.

(a) "Lessee's Proportionate Share" shall mean Lessee's percentage share of applicable expenses with *respect to the Building and the Common Areas determined by dividing the rentable square footage of the Premises as defined in this Lease by the Rentable Square Footage of the Building.*

(b) "Qualified Operating Expenses" shall mean all costs and expenses, except Non-Qualified Operating Expenses, during a Calendar Year, paid or incurred by Lessor because of or in connection with the ownership, control, operation, repair, marketing, management, security, safety, cleaning or maintenance of the Premises or Building, all related improvements thereto or thereon and all machinery, equipment, fixtures and other facilities, including personal property, as may now or hereafter exist in or on the Premises or Building. Qualified Operating Expenses include, without limitation: (i) Common Area Maintenance Costs including but not limited to: lawn care and landscaping; supplies; tools; equipment and materials used in the operation, repair, maintenance of the Property and the Common Areas; repairs; resurfacing, re-striping and all other costs and charges associated with parking areas; lighting; refuse removal; painting; the cost of personnel to implement such services and to maintain the Common Areas; property management costs and fees; maintenance contracts; repair costs for equipment, including (without limitation) the HVAC system serving the Building and the Premises; all costs associated with the elevators in the Building; janitorial services for the Common Areas; alarm monitoring, access control, and security services for the Common Areas, if at any time provided; advertising, marketing or promotional expenditures for the benefit of the Building; and other costs or expenses incurred with respect to the Common Areas; (ii) utilities including all costs, charges and fees for all utilities for the Building including but not limited to the cost of water, sewer, electricity, heating, ventilation and air conditioning (excluding those costs billed directly to tenants of the Building); (iii) depreciation on personal property and the cost (depreciated over a reasonable useful life or amortized as Lessor determines plus interest on the undepreciated or unamortized balance at the prime rate from time to time prevailing) of any capital improvements which (a) reduce Operating Expenses or improve the operating efficiency of any system within the Building or Common Areas, or (b) are required under any governmental law or regulation that was not applicable to the Building or Common Areas at the time the Building was constructed; (iv) Taxes; (v) insurance; and (vi) rental on the Ground Lease or other underlying leases and the costs of providing the same, if applicable. Qualified Operating Expenses shall be calculated in a consistent

manner throughout the Term in accordance with customary real estate industry practices in the area, consistently applied.

(c) Non-Qualified Operating Expenses shall not be included in the calculation of Lessee's Additional Rent. *Non-Qualified Operating Expenses shall mean: (i) the cost of any alterations, additions, changes or decorations which are made in order to prepare any space included in the Building; (ii) any cost which would otherwise be an Qualified Operating Expense to the extent the same has been reimbursed to Lessor by proceeds of insurance, condemnation award, refund, credit, warranty, service contact; (iii) brokerage and leasing commissions, space planning, architectual or engineering fees related to leasing or procuring Lessees for the Building, including Lessee; (iv) debt service or the costs of any mortgaging, financing, refinancing, transfer, sale of the Property or any part thereof or interest therein; (v) the cost incurred by Lessor in performing work or furnishing any service to or for a tenant of space in the Building (including Lessee) at such Lessee's cost and expense; (vi) accounting fees, other than those incurred in connection with the operation of the Property and the preparation of statements required pursuant to the provisions of this Lease and similar provisions or other leases of space in the Building; (vii) cost of repairs and maintenance of the Building which are paid wholly by Lessee to third parties or wholly by other than Lessor or Lessee to third parties; (viii) depreciation or amortization (except as set forth in the definition of Qualified Operating Expenses); and (ix) for each Calendar Year, the amount of Qualified Operating Expenses (other than Taxes and costs attributable to insurance and utilities) that exceeds the product of 1.05 and the total Qualified Operating Expenses for the immediately preceding Calendar Year.*

(d) Taxes shall mean and include, unless otherwise specified, all federal, state, and local government taxes, assessments and charges of any kind or nature, whether general, special, ordinary or extraordinary, paid by, imposed upon or assessed against Lessor or the Premises or the Building during each Calendar Year of the Term with respect to the ownership, management, operation, maintenance, repair or leasing of the Premises or Building. Taxes shall include, without limitation, real property taxes and assessments, sewer assessments, charges, sales and use taxes, ad valorem taxes, personal property taxes, and all other taxes, assessments and charges in lieu of, or substituted for, any of the foregoing taxes, assessments and charges. Taxes shall not include any federal, state or local government income, franchise, capital stock, inheritance or estate taxes, except to the extent such taxes are in lieu of or a substitute for any of the taxes, assessments or charges previously described in this Section. Taxes shall also include the amount of all fees, costs and expenses (including without limitation, attorneys' fees and court costs) paid or incurred by Lessor each Calendar Year in seeking or obtaining any refund or reduction of taxes or for contesting or protesting any imposition of taxes, whether or not successful and whether or not attributable to taxes assessed, paid or incurred in such Calendar Year. At the commencement and upon the termination of the Term, Taxes then paid or assessed will be appropriately prorated to reflect the portion of the period covered by such Taxes included within the Term and if the amounts of Taxes then assessed but not then due are not known, the Lessee shall pay to Lessor the appropriately prorated portion of such Taxes based upon the amounts due in the previous tax year.

Section 4.07 Payment of Additional Rent

During each Calendar Year, Lessee shall pay its Additional Rent on an estimated monthly basis with reconciliation of the estimated payments of Additional Rent to actual amount of Additional Rent following the end of the applicable Calendar Year. Lessee's Proportionate Share of Qualified Operating Expenses shall be estimated by Lessor and communicated to Lessee thirty (30) days prior to the beginning

of each Calendar Year if sufficient data is then available, and, if not, then as soon thereafter as sufficient data is available to Lessor. The first payment shall be due and payable in advance on the Phase I Rent Commencement Date and thereafter Lessee shall pay to Lessor each month during such calendar year at the same time as payments of monthly Base Rent are due for such Calendar Year, an amount equal to the monthly estimated Additional Rent provided by Lessor. Lessor reserves the right to adjust the monthly estimate of Additional Rent during any Calendar Year. Within ninety (90) days after the end of each Calendar Year, or as soon as possible thereafter, Lessor shall prepare and deliver to Lessee a statement showing the actual amount of Lessee's Additional Rent for such Calendar Year (a "Reconciliation Statement"). If the actual amount of Lessee's Additional Rent, as reflected on the Reconciliation Statement, is greater than the aggregate of estimated monthly payments of Additional Rent actually paid by Lessee during such Calendar Year, Lessee shall pay to Lessor such difference within thirty (30) days after delivery of the Reconciliation Statement. If the actual amount of Lessee's Additional Rent for the applicable Calendar Year, as reflected on the Reconciliation Statement, is less than the aggregate of estimated monthly payments of Additional Rent actually paid by Lessee during such Calendar Year, Lessor shall credit to Lessee such difference for Lessee's Additional Rent for the next Calendar Year. If the actual amount of Lessee's Additional Rent for a Calendar Year that is the final year of Lessee's Term, as reflected on the Reconciliation Statement, is less than the aggregate of estimated monthly payments of Additional Rent actually paid by Lessee during such Calendar Year, Lessor shall refund to Lessee such difference at the end of Lessee's Term.

Section 4.08 **Contesting Reconciliation Statement**

If Lessee wishes to contest any item on the Reconciliation Statement, Lessee may only do so in a written notice ("Contest Notice") received by Lessor within thirty (30) days following Lessee's receipt of such Reconciliation Statement, which notice shall specify in detail the items being contested and the specific grounds therefor. In the event the Lessee does not provide notice within such thirty (30) days, the Reconciliation Statement shall be deemed correct and accepted by Lessee. The giving of any such Contest Notice shall not relieve Lessee from the obligation to pay when due in accordance with this Lease any amount to be paid as set forth on such Reconciliation Statement or otherwise. If an audit shows an overpayment made by Lessee of greater than 5%, then prompt credit for such overpayment shall be given to Lessee, and the cost of the audit shall be paid by Lessor. Lessee recognizes the confidential nature of the Lessor's books and records, and agrees that any information obtained by Lessee during any examination shall be maintained in strict confidence by Lessee or anyone else reviewing Lessor's books and records on behalf of Lessee.

Section 4.09 Master Lease Expense Recovery Payments; Letter of Credit

Lessee covenants to pay to Lessor, in addition to Rent, a Master Lease Expense Recovery amount for each Lease Year in the Initial Term identified below, in the installment amounts and on the dates as expressly set forth on **Schedule 4.09** attached hereto and incorporated herein by reference:

Lease Year 1	$775,000
Lease Year 2	$625,000
Lease Year 3	$465,000
Lease Year 4	$415,000
Lease Year 5	$260.000

$ 2,540,000

Master Lease Expense Recovery payments shall not be characterized or deemed to be in the nature of rental payments or otherwise subject to the herein provisions applicable to the payment of Rent. On the Phase I Rent Commencement Date, Lessee, at the request and direction of Lessor, shall also deliver an evergreen irrevocable letter of credit for the benefit of Lender in the amount of $2,540,000, and such letter of credit shall be reduced each month on a dollar-for-dollar basis as each Master Lease Expense Recovery payment is made. Neither Lender nor Lessor may, under any circumstance, draw on the letter of credit unless and until Lessee's failure to pay the Master Lease Expense Recovery payment constitutes an Event of Default hereunder. Upon payment in full of the Master Lease Expense Recovery payments, Lessee may terminate the letter of credit. Lessor shall reimburse or otherwise credit Lessee for the costs and fees associated with securing the letter of credit, and the parties shall mutually agree on the frequency and manner of such reimbursement or posting of credit, as the case may be.

ARTICLE V. USE OF PREMISES

Section 5.01 Permitted Uses

Lessee shall use and occupy the Premises during the Term hereof for providing medical services that can safely be performed in a medical office setting as permitted by Applicable Laws (as defined below), along with any and all ancillary commercial services and business and administrative uses related to such medical or licensed hospital services. Lessee may not use the Premises for any other use without the written consent of Lessor.

Section 5.02 Prohibited Uses

Lessee shall not use or occupy the Premises in violation of any law, order, rule, regulation or ordinance, (collectively "Applicable Laws"); or any recorded covenants, conditions or restrictions, or any rules or regulations as are prescribed by Lessor including, but not limited to, those rules and regulations set forth on **Exhibit C** attached hereto, from time to time governing or affecting the Premises or the Building or the business of Lessee conducted thereon (all such covenants, conditions, restrictions, ground leases, rules and regulations being collectively referred to herein as "Restrictions"). Lessee shall, upon written notice from Lessor, discontinue any use of the Premises which is declared by a governmental entity, agency or authority of competent jurisdiction to be a violation of law, rule, regulation or ordinance. Lessee shall comply with any direction of any governmental entity, agency, or authority of competent jurisdiction which shall by reason of the nature of Lessee's use or occupancy of the Premises, impose any duty or liability upon Lessee or Lessor with respect to the Premises or with respect to the use or occupation thereof. Lessee shall not use or occupy the Premises or permit anything to be done in or about the Premises, whether by Lessee, its employees, agents, invitees or otherwise which will in any way obstruct or interfere with the rights of other Lessees of the Building or injure them, which is a nuisance or which is obnoxious to the operation of a first class medical office building. Lessee shall not use or permit any of its employees, invitees or others claiming by or through Lessee to use any exclusive parking spaces reserved for other Lessees and shall obey all parking garage rules and regulations established by Lessor.

Section 5.03 Lessor's Covenants Regarding Prohibited Uses

Lessor covenants that it shall not permit any portion of the Building to be used by any lessee or tenant other than Lessee for the following services:

(a) Any purpose other than for the practice of medicine or medically related services for the care and treatment of humans, but such use shall not be prohibited with respect to those tenants occupying square footage in the Building under leases in force as of the Phase I Rental Commencement Date;

(b) The operation of diagnostic radiography (x-ray), laboratory or similar equipment,

(c) The operations of any outpatient surgery center or birthing center, or for providing infusion therapy, renal dialysis, physical therapy, pulmonary or cardiological testing services;

(d) The operation of a pharmacy, a gift shop, a flower shop or food services; and

(e) Any procedure or test for diagnostic or therapeutic purposes involving moderate or full sedation.

Notwithstanding the foregoing, the restrictions set forth in the foregoing subparagraphs (a) through and including (e) shall not be construed as prohibiting another lessee (i) from operating laboratory equipment for the benefit of its patients under a CLIA Certificate of Waiver, (ii) from drawing laboratory samples for analysis elsewhere, (iii) from providing incidental and infrequent infusion therapy for those patients constituting no more than five percent (5%) of the total patients seen in the applicable practice space; or (iv) solely with respect to UT Medical Group, Inc. (together with its successors or assigns, "UTMG") and its practice of reproductive endocrinology and performance of in vitro fertilization, providing to such lessee's patients those services listed in the foregoing subparagraphs (b) and (e) that are customarily provided for such specialty in an office setting.

Lessor, should it deem reasonably necessary to do so, may grant to UTMG, as a lessee, a written waiver for a specific use or service that would otherwise violate the foregoing use restrictions, provided that Lessor shall (i) immediately notify Lessee in writing of the existence of such waiver and provide a copy of such written waiver to Lessee; (ii) limit each waiver's effectiveness so that it expires, by its terms, at least thirty (30) days prior to the date upon which Lessee begins providing a service that is substantially similar to the use or service permitted in the waiver, provided that Lessor has notified UTMG at least sixty (60) days prior to Lessee's commencement of such service; and (iii) provide timely notice to UTMG as applicable so long as Lessee provides to Lessor at least sixty-five (65) days' prior notice of its commencement of such substantially similar service.

Section 5.04 **Lessor's Covenants Regarding License and Hospital Staff Membership Requirements**

(a) Lessor hereby covenants and agrees that it shall include in each lease of Building square footage with a lessee other than Lessee, and shall enforce, a provision requiring each and every physician who practices in or uses any part of the leased premises more than one (1) day per week (each such physician, a "Qualified Occupant"), to maintain at all times (i) any and all licenses, consents and permissions to practice medicine under and in accordance with local, state and federal physician licensing laws or requirements, and (ii) any and all licenses, consents and permissions relating to the operation of any ancillary service permitted to be provided by Lessee hereunder. In addition, Lessor covenants to include in each such lease and to enforce a requirement that at least seventy-five percent (a "Substantial Majority") of the Qualified Occupants shall at all times maintain staff privileges with Lessee (or any successor thereto). If such lessee, or any Qualified Occupant, no longer maintains any required license, or a Substantial Majority of Qualified Occupants no longer maintains staff privileges with Lessee, Lessor

shall have and shall exercise its right, upon such lessee's failure to cure its breach after reasonable notice, to terminate the subject lease and exercise any other rights and remedies thereunder.

(b) Lessor shall include in its lease with UTMG and enforce a covenant that UTMG (or any successor thereto) will maintain its status as an affiliate and physician practice plan of the University of Tennessee Health Sciences Center ("UTHSC"), and that UTMG will not become affiliated (as defined in Section 5.04(c) below) with another hospital (except for the Lessee) located in Shelby County or within 50 miles of the boundary thereof (each hospital therein defined as "Competing Hospital"). Further, all Qualified Occupants of UTMG shall remain employees or members solely of UTMG and shall maintain faculty appointments at the University of Tennessee College of Medicine or other college at UTHSC. Further, if UTMG, or any Qualified Occupant, ceases to comply with or otherwise breaches any provision setting forth the foregoing obligations, Lessor shall have the right, and shall exercise such right, upon UTMG's failure to cure any breach after reasonable notice thereof, to terminate the lease with UTMG and exercise any other rights and remedies thereunder.

(c) Lessor shall require that each lessee covenant and agree that neither it nor any Qualified Occupant will affiliate with a Competing Hospital by entering into a joint venture investment, management contract or other arrangement to share financial risk or reward, regarding the operation of licensed hospital activities or any services described in Section 5.03 (Use Restrictions). Further, if such lessee, or any Qualified Occupant, breaches the covenants described in this Section 5.04(c), Lessor shall have the right, and shall exercise its right, after such lessee's failure to cure its breach after reasonable notice thereof, to terminate the subject lease and exercise any other rights and remedies thereunder. Notwithstanding the foregoing, any such joint venture investment or other such ownership arrangement between or among any lessee, any Qualified Occupant, and a Competing Hospital shall not constitute a breach of such lease so long as (i) the Competing Hospital does not possess, directly or indirectly, the power to direct the management or policies of such joint venture or other ownership arrangement, whether through the ownership of a voting interest, by contract, or otherwise; (ii) the Competing Hospital holds no more than a twenty percent (20%) direct or indirect ownership interest in the joint venture or other ownership arrangement; and (iii) the joint venture or other ownership arrangement does not market its services or otherwise hold itself out to the public as an affiliation between or among any combination of the Competing Hospital, such lessee, and any Qualified Occupant.

(d) Lessee is and shall be deemed in each lease a third party beneficiary of each lessee's obligations described under this Section 5.04 and shall be entitled to enforce the same independently of the rights of Lessor.

(e) Lessor may not grant a waiver for a particular circumstance that would otherwise violate the covenants described in this Section 5.04(c) without the prior written consent of Lessee (which consent may not be unreasonably withheld with respect to a waiver request from UTMG).

ARTICLE VI. ASSIGNMENT & SUBLETTING

Section 6.01 Requirements for Assignment or Subletting

During the Term, Lessee shall not have the right to transfer or assign any interest in this Lease, by operation of law, merger or otherwise, or to mortgage or encumber Lessee or Lessor's interest in this Lease, or to sublet the whole or any part of the Premises, without the prior written consent of Lessor, which consent shall not be unreasonably withheld, conditioned or delayed. Lessee must request Lessor's consent to a proposed assignment or subletting in writing no fewer than thirty (30) days prior to the effective date of the proposed assignment or subletting, which request must include: (i) the name and address of the proposed assignee or sublessee; (ii) the nature and character of the business of the proposed assignee or sublessee; (iii) in the case of an assignment only, financial information (including full financial statements as reasonably requested by Lessor) of the proposed assignee; and (iv) a copy of the proposed assignment agreement or sublease, each of which must be in substance and form reasonably acceptable to Lessor. Within thirty (30) days after Lessor receives Lessee's request (with all required information included), Lessor shall have the option, in its sole but reasonable discretion: (1) to grant its consent to such proposed assignment or subletting, or (2) to deny its consent to such proposed assignment or subletting. Should Lessor fail to respond within such thirty (30) day period, the proposed assignment or subletting shall be deemed to have been approved. For purposes of this Article, the following actions shall be deemed to be an assignment of this Lease and shall require Lessor's prior written approval: (w) the transfer of a majority of the issued and outstanding capital stock of any corporate Lessee or sublessee; (x) the transfer of a majority of the partnership interests in a Lessee or sublessee that is a partnership; (y) the transfer of either the majority of the partnership interests or control in any Lessee or sublessee that is a limited partnership; and (z) the transfer of either the majority of the membership interests or control in any Lessee or sublessee that is a limited liability company; the same shall be deemed to have incurred whether in a single transaction or in a series of related or unrelated transactions from the beginning of the Term.

Section 6.02 Payment of Sublease Rent

In the event Lessee sublets all or any portion of the Premises and Lessor's consent is required, fifty percent (50%) of any rent accruing to Lessee as the result of such subletting in excess of the Rent (including Base Rent) then being paid by Lessee under this Lease (or a pro rata portion thereof, in the event only a portion of Premises are sublet) shall be paid to Lessor, and Lessee shall pay such amount to Lessor within five (5) days after Lessee's receipt thereof every month, as Additional Rent hereunder.

Section 6.03 Lessee's Continuing Liability

Notwithstanding any assignment or subletting, Lessee shall remain liable for all obligations under this Lease. Any assignee of Lessee, at the option of Lessor, shall become directly liable to Lessor for all obligations of Lessee hereunder, but no assignment or subletting by Lessee shall relieve Lessee of any liability hereunder.

Section 6.04 Lessor's Cost Related to Assignment or Subletting

Lessee shall, promptly upon demand by Lessor, reimburse up to One Thousand and No/100 Dollars ($1,000.00) of Lessor's reasonable attorneys' fees and out-of-pocket expenses actually incurred in connection with Lessor's review of any Assignment or Subletting documents, and such costs and expenses shall constitute Additional Rent hereunder.

ARTICLE VII. LESSOR'S OBLIGATIONS

Section 7.01 Utility Service

The normal business hours of the Building, shall be from 8:00 A.M. to 6:00 P.M. on Monday through Friday, and 8:00 A.M. to 1:00 P.M. on Saturday, exclusive of national holidays.

(a) Lessor will furnish Lessee the following services and utilities of the quality and in quantity *customary for first class medical office buildings located in Memphis, Tennessee:*

(i) Elevator service for passenger and delivery needs;

(ii) Heat and air conditioning within the Premises at a maximum temperature of approximately 75 degrees Fahrenheit during summer operations and at a minimum temperature of approximately 70 degrees Fahrenheit during winter operations, subject to governmental regulations;

(iii) Hot and cold running water, soap, paper towels, and toilet tissue for all restrooms and lavatories;

(iv) Janitorial service, which includes sanitizing, dusting, cleaning, mopping, vacuuming and removal of trash not requiring special handling, Monday through Friday;

(v) Custodial, electrical and mechanical maintenance services, Monday through Friday;

(vi) Electric power, for small desktop types of machines or handheld devices, such as personal computers, copiers, scanners, paper shredders, and the like;

(vii) Electric lighting, at a level of at least 80 foot candles at desk height except in corridor or storage areas, and including the replacement of building-standard lamps, fixtures and ballasts as needed

(viii) Repairs and maintenance, for maintaining in good order at all times, the exterior walls, windows doors and roof of the Building; public corridors, stairs, elevators, storage rooms and restrooms; the air conditioning, electrical and plumbing systems of the Building; and the walks, paving and landscaping surrounding the Building; and

(ix) General management, including supervision, inspections, record keeping, accounting and related management functions.

(b) The services provided in subparagraph (a) herein and the amount of Rent prescribed herein are predicated on and are in anticipation of certain usage of the Premises by Lessee as follows:

(i) Air conditioning design is based on sustained outside temperatures being no higher than 94 degrees Fahrenheit and no lower than 17 degrees Fahrenheit with sustained occupancy of the Premises by no more than ____ people per .75 square feet of floor area and heat generated by electrical lighting and fixtures not to exceed 4.0 watts per square foot.

(ii) For hours other than normal business hours, heating of the Building shall be held to a minimum temperature of approximately 60 degrees Fahrenheit and cooling of the Building shall be held to a maximum temperature of approximately 80 degrees Fahrenheit, regardless of the outside temperature.

(iii) Electrical power usage and consumption is based on lighting of the Premises during normal business hours at a level of at least 80 foot candles at desk height, and power for machines and equipment normally found in a medical office or business office, such as refrigerators (other than large commercial refrigeration unit), personal computers, photocopying machines, typewriters, calculators and adding machines, facsimile machines and other business machines using 100 volt, 20 amp circuits. Such heavier power use items such as stove, x-ray equipment, compressed air and other heavy power usage medical equipment and the like shall not be used or installed unless specified elsewhere herein, or by separate written consent of Lessor.

(iv) The Premises will be provided an override switch which will allow for the operation of the air conditioning and/or heating system for periods other than the normal business hours as specified above. If Lessee uses services in an amount or for a period in excess of that provided for herein, then Lessor reserves the right to charge Lessee as Additional Rent hereunder a reasonable sum as reimbursement for the direct cost of such added services. In the event of disagreement as to the reasonableness of such charge, the opinion of the appropriate local utility company or an independent professional engineering firm shall prevail.

Section 7.02 Interruption of Service

Lessor shall not be liable for, and the obligation of Lessee to pay Rent and keep, observe and perform all of its covenants, obligations, duties and agreements herein shall not be affected or excused by, the failure to furnish or delay in furnishing elevator service, electric power, heat, air conditioning, water, janitorial service, or any other service, a strike or labor controversy, a riot, an act of God, the inability to secure fuel for the Building, any accident or casualty, or any other cause beyond the reasonable control of Lessor. Lessor shall use its best efforts to minimize any disruption of Lessee's use of the Premises arising from any interruption or failure of utilities or services.

ARTICLE VIII. MAINTENANCE & REPAIRS

Section 8.01 Lessor's Responsibility

Lessor shall keep and maintain, renovate, repair, and keep in good order and condition the Common Areas, including the land, parking lot, roof, foundation, mechanical, electrical, life safety, plumbing, sprinkler systems, heating, ventilating and air conditioning systems, structural elements of the roof, foundation, structural columns and load bearing walls (except for the interior non-structural components of the Premises which shall be maintained by Lessee and such additional mechanical or equipment systems installed by Lessee, including but not limited to any communication systems, medical equipment or any other supplemental or specialized items required by Lessee). Any maintenance, repair, renovation or replacements required by the acts or omissions of Lessee shall be paid for entirely by Lessee. Lessor may, at its expense, make any repairs, alterations, or improvements which Lessor may deem necessary for the preservation, safety, security or improvement of the Premises or the Building. Lessee shall have no

right to perform the obligations of Lessor pursuant to this Section (except in case of emergency) and hereby waives all statutory and other rights to perform such obligations or to offset any Rent due as a result of Lessor's failure to perform its obligations under this Section or any other Section of this Lease. Lessor shall use commercially reasonable efforts to reduce the amount of injury to or interference with Lessee's business arising from the performance of its obligations under this Section. There shall be no abatement of Base Rent or other sums and charges due hereunder and no liability of Lessor by reason of any injury to or interference with Lessee's business arising from or relating to the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or in or to fixtures, appurtenances and equipment therein or thereon, unless such repairs, alterations or improvements were made necessary by damage caused by the negligence of Lessor. All expenses and costs incurred by Lessor pursuant to this Section shall be classified as Qualified Operating Expenses unless specifically excluded as Non-Qualified Operating Expenses in accordance with Section 4.06.

Section 8.02 Lessee's Responsibility

Lessee shall not cause or knowingly permit any waste, damage or injury to the Premises. Lessee, at its sole expense, shall keep the Premises as now or hereafter constituted with all improvements made thereto in good condition (reasonable wear and tear and casualty excepted), and shall make all repairs, replacements and renewals to Lessee's Improvements necessary to maintain the Premises in the condition in which it existed as of Lessee's occupancy of such portion of the Premises, reasonable wear and tear and casualty excepted. All repairs, replacements and renewals shall be at least equal in quality of materials and workmanship to that originally existing in the Premises, shall be done in a good and workmanlike manner and in compliance with all laws, ordinances, rules and requirements of any federal, state or municipal government or agency having jurisdiction, including (without limitation) the Americans with Disabilities Act (as the same may be amended), and shall be completed free of all mechanics' and materialmen's liens. Lessee agrees to give Lessor notice of any repairs made by Lessee. On default of Lessee in making such repairs or replacements, Lessor may, but shall not be required to, make such repair, replacement or renewal for Lessee's account, and the expense thereof shall constitute and be collectible by Lessor from Lessee as Additional Rental.

Section 8.03 Alterations by Lessee

Lessee shall have the right, from time to time, to make improvements or alterations to the interior of the Premises, subject to Section 8.02 above and the following conditions: (i) no improvement or alteration shall at any time be made which shall impair or otherwise alter the structural soundness or diminish the value of the Premises or the Building; (ii) no improvement or alteration requiring an inspection or approval by any municipal or any other governmental authority having jurisdiction over such improvements or alterations shall be made at any time without first obtaining Lessor's written approval therefor; (iii) no improvement or alteration shall be undertaken until Lessee shall have procured and paid for all required municipal and other governmental permits and authorizations; (iv) all work done in connection with any improvements or alterations shall be done in a good and workmanlike manner and in compliance with all applicable building and zoning laws, and with all other laws, ordinances, rules and requirements of any Federal, state or municipal government or agency having jurisdiction including (without limitation) the Americans with Disabilities Act (as the same may be amended), and shall be completed free of all mechanics' and materialmen's liens; (v) Lessee shall keep the Premises, the Building and the Common Areas free from any liens arising out of work performed, materials furnished

or obligations incurred by Lessee, and Lessee shall indemnify, hold harmless and defend Lessor from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Lessee; and (vi) any improvement or alteration to the Premises (including, without limitation, the Lessee Improvements), except moveable furniture, trade fixtures and medical equipment and other personal property placed by Lessee in the Premises, shall at once become the absolute property of Lessor and remain upon and be surrendered with the Premises as a part thereof at the expiration (or earlier termination, if applicable) of this Lease without disturbance or injury.

Section 8.04 **Performance of Lessee's Alterations**

Improvements or alterations by Lessee shall be conducted by contractors approved in writing by Lessor, and shall be performed at Lessee's sole expense and at such times and in such manner as Lessor may from time to time reasonably designate. Lessee shall reimburse Lessor, within ten (10) days after demand therefor, for any out-of-pocket expense reasonably incurred by Lessor for reviewing the plans and specifications for such Alterations or inspecting the progress of completion of the same. Lessee shall furnish to Lessor copies of records of all Alterations and of the cost thereof within thirty (30) days after the completion of such Alterations.

ARTICLE IX. LESSEE'S PROPERTY

Section 9.01 **Lessee's Personal Property**

All Lessee's personal property and trade fixtures shall remain the property of Lessee and, on or before the Expiration Date or earlier end of the Term, shall be removed from the Premises by Lessee at Lessee's option, provided, however, that Lessee shall repair and restore in a good and workmanlike manner to Building standard condition (wear and tear caused by ordinary reasonable use excepted) any damage to the Premises or the Building caused by such removal. The provisions of this Section shall survive the expiration or earlier termination of this Lease. All personal property and trade fixtures of Lessee located in or about the Building or Premises shall be there at the sole risk of Lessee, and Lessor shall not be liable for any damage done to or loss of such personal property, unless such damage or loss is the direct result of the acts or omissions of Lessor, its agents, employees, contractors or subcontractors. Lessee represents and warrants that it has acquired adequate insurance on its personal property and trade fixtures to insure Lessee against such risk of loss.

Section 9.02 **Personal Property Taxes**

Lessee shall pay all taxes and other amounts charged, levied or assessed against trade fixtures, furnishings, equipment or any other personal property located in, or used by Lessee in connection with, the Premises. Lessee shall use diligent efforts to have all such personal property taxed separately from the Building or property of Lessor.

ARTICLE X. INSURANCE

Section 10.01 **Lessor's Insurance Coverage**

Lessor shall obtain and maintain, or cause to be maintained, insurance for Lessor and the Property providing at least the following coverages:

(a) comprehensive "All Risk" or "Special Form" insurance on the Building and Lessor's Personal Property (i) in an amount equal to one hundred percent (100%) of the "Full Replacement Cost," which for

purposes of this Agreement shall mean actual replacement value (exclusive of costs of excavations) with no waiver of depreciation; (ii) containing an agreed amount endorsement with respect to the Improvements and Personal Property waiving all co-insurance provisions, or confirmation that co-insurance does not apply; and (iii) providing for commercially reasonable deductibles for all such insurance coverage; and

(b) commercial general liability insurance, including a broad form comprehensive general liability endorsement and coverage against claims for personal injury, bodily injury, death or property damage occurring upon, in or about the Property, such insurance (i) to be on the so-called "occurrence" form with a combined limit of not less than Two Million and No/100 Dollars ($2,000,000.00) in the aggregate and One Million and No/100 Dollars ($1,000,000.00) per occurrence (and, if on a blanket policy, containing an "Aggregate Per Location" endorsement); (ii) to continue at not less than the aforesaid limit until required to be changed by Lender in writing by reason of changed economic conditions making such protection inadequate; and (iii) to cover at least the following hazards: (1) premises and operations; (2) products and completed operations on an "if any" basis; and (3) independent contractors.

Section 10.02 **Lessee's Obligations with respect to Lessor's Insurance**

Lessee shall not do or permit to be done any act or thing in or upon the Premises and/or the Building which will invalidate or be in conflict with the terms of Lessor's policies of fire and casualty insurance on the Building (hereinafter referred to as "Building Insurance"), provided that Lessee is apprised of such terms. Lessee, at Lessee's own expense, shall comply with all rules, orders, regulations and requirements of all insurance boards, and shall not do or permit anything to be done in or upon the Premises and/or the Building or bring or keep anything therein or use the Premises and/or the Building in a manner which increases the rate of premium for any of the Building Insurance over the rate in effect at the commencement of the Term of this Lease. In the event a policy is canceled or the casualty insurance premium rate shall be higher than it otherwise would be, as a result of the actions of Lessee, then Lessee shall reimburse Lessor, as Additional Rent hereunder, for the cost of a replacement policy or for such excess casualty insurance premiums paid by Lessor, as applicable, upon the first day of the month following payment by Lessor of the premiums for such replacement policy or such excess casualty insurance premiums, as applicable. Lessor represents and warrants that Lessee's intended use of the Premises as of the Lessee's occupancy of the Phase I Space does not conflict with the provisions of this **Section 10.02** or increase the rate of premium for any of the Building Insurance.

Section 10.03 **Lessee's Insurance**

At Lessee's own cost and expense, Lessee shall obtain, maintain and keep in full force and effect during the Term the insurance coverages set forth in this Section. All premiums and any deductible amounts (which shall be reasonably acceptable to Lessee) for such coverages shall be paid directly by Lessee.

(a) Commercial general liability insurance in a form approved in the State of Tennessee (including broad form property damage coverages). The limits of liability shall not be less than Three Million Dollars ($3,000,000.00) per occurrence, which amount may be satisfied with a primary commercial general liability policy of not less than One Million Dollars ($1,000,000.00) and an excess (or "Umbrella") liability policy affording coverage, at least as broad as that afforded by the primary commercial general liability policy, in an amount not less than Two Million Dollars ($2,000,000.00). Lessor, the property manager and any mortgagees shall be included as additional insureds in said policies and shall be protected against all such insured liability arising in connection with this Lease. All

said policies of insurance shall be written as "occurrence" policies. Whenever, in Lessor's reasonable judgment, good business practice and changing conditions indicate a need for additional amounts or different types of insurance coverage, Lessee shall, within ninety (90) days after Lessor's request, obtain such insurance coverage, at Lessee's expense, so long as the coverage limits do not exceed those customarily required for Lessees of comparable size in property similar to the Property.

(b) Personal Property Insurance. Lessee shall maintain in full force and effect a property insurance policy or policies insuring Lessee's personal property against loss or damage commonly covered by a "Special Form" policy insuring against physical loss or damage to Lessee's personal property, including, but not limited to, risk of loss from fire, windstorm, hail, and other hazards, collapse, transit coverage, vandalism, malicious mischief, theft, earthquake (if the Property is in earthquake zone 1 or 2), and sinkholes (if usually recommended in the area of the Property) and all physical loss perils including but not limited to sprinkler leakage, tornado, explosion, riot, terrorist attacks, aircraft, smoke and vehicle damage, provided such forms or endorsements are available with commercially reasonable premiums. The policy shall be in the amount of the full replacement value of Lessee's personal property and shall contain a deductible amount acceptable to Lessee and Lessor. The form of policy for this coverage shall be Completed Value.

(c) Business Interruption Insurance. Lessee, at its expense, shall maintain in full force and effect business interruption insurance for not less than twelve (12) months of income and normal operating expenses, including payroll and Base Rent payable hereunder with an endorsement extending the period of indemnity by at least ninety (90) days (Building Ordinance-Increased Period of Restoration Endorsement) and in an amount to prevent Lessor from becoming a co-insurer.

(d) Workers' Compensation and Employers' Liability Insurance. Lessee shall maintain in effect Workers' Compensation and Employers' Liability Insurance, with a waiver of subrogation endorsement, in form and amount reasonably satisfactory to Lessor and as required by law.

(e) Other Insurance. At Lessee's expense, Lessee shall maintain in full force and effect any other form or forms or amounts of insurance or any changes or endorsements to the insurance required herein as Lessor or Property Mortgagee may reasonably require from time to time, provided such forms, amounts, changes or endorsements are available and customarily required for Lessees of comparable size in property similar to the Property.

All policies of insurance shall be: (i) written as primary policy coverage and not contributing with or in excess of any coverage which Lessor may carry; and (ii) issued by reputable and independent insurance companies rated in Best's Insurance Guide or any successor thereto (or, if there is none, an organization having a national reputation), as having a general policyholder rating of "A-VII" and a financial rating of at least "XIII", and which are licensed to do business in the State of Tennessee. Lessee shall, not later than ten (10) business days prior to the Rent Commencement Date, deliver to Lessor either (a) the policies of insurance or (b) certificates thereof with a copy of the declaration page, and shall thereafter furnish to Lessor, at least thirty (30) days prior to the expiration of any such policies and any renewal thereof, a new policy or certificate (with copy of the declaration page) in lieu thereof. Each policy shall also contain a provision whereby the insurer agrees not to cancel, or fail to renew said insurance policy(ies) without having given Lessor, the property manager and mortgagees at least thirty (30) days prior written notice thereof. Lessee shall promptly send to Lessor a copy of all notices sent to Lessee by Lessee's insurer.

Lessee shall pay all premiums and charges for all of said policies, and if Lessee shall fail to make any payment when due or carry any such policy, Lessor may, but shall not be obligated to, make such payment or carry such policy, and the amount paid by Lessor, with interest thereon (at the maximum rate permitted by law), shall be repaid to Lessor by Lessee on demand, and all such amounts so repayable, together with such interest, shall be deemed to constitute Additional Rent hereunder. Payment by Lessor of any such premium, or the carrying by Lessor of any such policy, shall not be deemed to waive or release the default of Lessee with respect thereto.

Notwithstanding anything to the contrary set forth herein, Lessee may utilize a blanket insurance policy or policies to satisfy its obligations under this **Section 10.03** above subject to the following conditions: (a) coverage may be allocated by Lessee among the properties owned or managed by Lessee as Lessee, in Lessee's reasonable discretion, deems appropriate; (b) each policy shall specify the amount of the total coverage allocated to the Premises, which amount shall not be less than the amount required herein; (c) any such policy shall not, as to Lessor's coverage thereunder, be subject to invalidation as of result of any act or omission by Lessee of any kind whatsoever; and (e)the blanket policy shall otherwise comply with the requirements set forth in this Lease.

Section 10.04 Waiver of Subrogation

Lessor shall cause each policy required to be carried by Lessor insuring the Building against loss, damage or destruction by fire or other casualty, and Lessee shall cause each insurance policy required to be carried by Lessee and insuring the Premises and Lessee's Alterations, leasehold improvements and Lessee's property against loss, damage or destruction by fire or other casualty, to be written in a manner so as to provide that the insurance company waives all rights of recovery by way of subrogation against Lessor, Lessee and any party to the other for the amount of such loss or damage, if any, caused by fire or any of the risks enumerated in its policies, provided that such waiver was obtainable at the time of such loss or damage. However, if such waiver cannot be obtained, or shall be obtainable only by the payment of any additional premium charge above that which is charged by companies carrying such insurance without such waiver of subrogation, then the party undertaking to obtain such waiver shall notify the other party of such fact and such other party shall have a period of ten (10) days after the giving of such notice to agree in writing to pay such additional premium if such policy is obtainable at additional cost (in the case of Lessee, pro rata in proportion of Lessee's rentable area to the total rentable area covered by such insurance); and if such other party does not so agree or the waiver shall not be obtainable, then the provisions of this Section shall be null and void as to the risks covered by such policy for so long as either such waiver cannot be obtained or the party in whose favor a waiver of subrogation is desired shall refuse to pay the additional premium. If the release of either Lessor or Lessee, as set forth in this Section, shall contravene any law with respect to exculpatory agreements, the liability of the party in question shall be deemed not released, but no action or rights shall be sought or enforced against such party unless and until all rights and remedies against the other's insurer are exhausted and the other party shall be unable to collect such insurance proceeds.

ARTICLE XI. CASUALTY OR EMINENT DOMAIN

Section 11.01 Casualty

In the event of a partial destruction of the Building during the Term and if such partial destruction arises from any cause required to be insured against by Lessor hereunder, and if Lessor has the net insurance proceeds available to use, Lessor shall repair the same to a condition substantially comparable to that existing

before such partial destruction, provided that such repairs can, in Lessor's sole opinion, be made within two hundred seventy (270) working days (the "Repair Period") after the date of such partial destruction (the "Casualty Date"), but such partial destruction shall in no way terminate, annul or void this Lease. Until such repairs are completed, the Annual Base Rent, Additional Rent and other sums due hereunder shall be abated in proportion to the part of the Premises which is unusable by Lessee in the conduct of its business. If the partial destruction is due to the gross negligence or intentional misconduct of Lessee, its employees, agents, clients, customers, guests or invitees, there shall be no abatement of Annual Base Rent and Additional Rent as may be due. In the event the Premises cannot be repaired within the Repair Period, Lessor shall notify Lessee within sixty (60) days after the Casualty Date that the Premises cannot be repaired within the Repair Period, and within five (5) days of such notice from Lessor to Lessee, either Lessor or Lessee may, by written notice to the other party, elect to cancel this Lease, effective as of the Casualty Date. In the event Lessor elects to cancel this Lease, then Lessee shall not be required to make any payments of Annual Base Rent or Lessee's Proportionate Share of Qualified Operating Expenses (as abated in the manner set forth above) for the period from and after the date Lessee ceases to occupy any part of the Premises after the Casualty Date. Lessor shall not be liable for any inconvenience or annoyance or injury to the business of Lessee resulting in any way from damage from fire or other casualty or the repair thereof unless the result of Lessor's gross negligence or willful misconduct. If such partial destruction is caused by any casualty not required on the part of Lessor to be insured against hereunder, then Lessor may, by written notice to Lessee within thirty (30) days after the Casualty Date, terminate this Lease as of the Casualty Date. A total destruction of the Building, as certified by Lessor's engineer or architect, shall automatically terminate this Lease as of the Casualty Date. Lessee acknowledges that Lessor's existing and/or future lenders holding a mortgage or deed of trust on the Building may request reasonable modifications to this Section, and Lessee agrees to negotiate reasonably, diligently and in good faith with respect to any modifications so requested by any such lender.

Section 11.02 **Eminent Domain**

If all of the Building is taken by any lawful authority by exercise of the right of eminent domain or transfer in lieu of a taking (collectively "Taken"), then this Lease shall terminate effective as of the earlier of the date possession or day that title is required to be surrendered to such authority. If only a portion of the Building or any portion of the Property is taken, the loss of which would have a permanent material and adverse impact on Lessee's use of the Premises, as determined by Lessee in its reasonable discretion, Lessor may terminate this Lease effective as of the earlier of the date possession or title is required to be surrendered to such authority. If this Lease is not terminated as provided above, then Lessor shall promptly, subject to availability of a sufficient condemnation award, proceed to restore the Premises and the Property to substantially their condition prior to the taking or transfer, and Rent shall abate to the extent Lessee's use and enjoyment of the Premises is interrupted as reasonably determined by Lessor. Lessor shall be entitled to the entire amount of the condemnation award; provided that nothing in this Article shall be deemed to prevent Lessee from seeking any award against such authority for the taking of personal property and fixtures belonging to Lessee or for relocation or business interruption expenses recoverable from such authority. No temporary taking of the Premises or the Property shall terminate this Lease or give Lessee any termination or Rent abatement right, and any award specifically attributable to a temporary taking of the Premises shall belong entirely to Lessor, except for any separate award made to Lessee for relocation or business interruption expenses that shall belong entirely to Lessee. A

temporary taking shall be deemed to be a taking of the use or occupancy of the Premises or the Property for a period of ninety (90) days or less.

ARTICLE XII. INDEMNIFICATION

Section 12.01 Indemnification by Lessee

Notwithstanding the existence of any insurance or self-insurance provided for herein, and without regard to the policy limits of any such insurance or self-insurance, Lessee hereby indemnifies and agrees, at its sole expense, to protect, indemnify, defend and hold Lessor, any successors to Lessor's interest in this Lease, any property mortgagee and their respective successors and assigns, and their respective directors, offices, employees, servants agents, partners, members and shareholders (each, a "Lessor Indemnified Party") harmless from and against and to pay a Lessor Indemnified Party on demand with respect to any and all claims, demands, actions, causes of action, losses, penalties, damages (including consequential damages), obligations, liabilities (including strict liability), judgments, costs and expenses of any and every kind or character, known or unknown, fixed or contingent, asserted against or incurred by any Lessor Indemnified Party at any time and from time to time by reason or arising out of: (a) the use or occupancy of the Property by Lessee or any persons claiming under Lessee; (b) any activity, work, or thing done, or permitted or suffered by Lessee in or about the Property; (c) any breach, violation, or nonperformance by Lessee or any person claiming under Lessee or the employees, agents, contractors, invitees, or visitors of Lessee or of any such person, of any representation, term, covenant, or provision of this Lease or any Applicable Laws or Environmental Law; (d) any injury or damage to the person, property or business of Lessee, its employees, agents, contractors, invitees, visitors, or any other person entering upon the Property; (e) any construction, alterations, changes or demolition of the Property performed by or contracted for by Lessee or its employees, agents or contractors; (f) any obligations, costs or expenses arising under any liens imposed on the Property as a result of Lessee's actions; (g) any accident, injury to or death of persons (including malpractice or professional negligence claims, losses or damages) or loss of or damage to property occurring on or about the Property or adjoining sidewalks (including Common Areas) resulting from acts, omissions, negligence or misuse by Lessee or its employees, agents, contractors, invitees or visitors, or any maintenance, alteration or repair by Lessee of the Property; (h) any Taxes to be paid by Lessee hereunder; (i) any loss or damage to Lessor resulting from Lessee's failure to surrender the Premises or any part thereof upon the expiration or termination of this Lease in a timely manner and in accordance with the terms and provisions of this Lease or liability resulting from such failure, including, without limiting the generality of the foregoing, loss of rental with respect to any new lease in which the rental payable thereunder exceeds the Rent collected by Lessor pursuant to this Lease during Lessee's holdover and any claims by any proposed new Lessee founded on Lessee's failure to surrender the Premises; and (j) the non-performance of any of the terms and provisions of any and all existing and future subleases of the Property to be performed by the sub-lessor (Lessee hereunder) or any sublessees thereunder. Nothing herein shall be construed as indemnifying Lessor against its own gross negligence or willful misconduct, provided Lessee shall have the burden of proving such gross negligence or willful misconduct. For purposes of this Section, any acts or omissions of Lessee, or by employees, agents, assignees, contractors, invitees, visitors, subcontractors or others acting for or on behalf of Lessee (whether or not they are negligent, intentional, willful or unlawful), shall be strictly attributable to Lessee.

Section 12.02 Indemnification by Lessor

Notwithstanding the existence of any insurance or self-insurance provided for herein, and without regard to the policy limits of any such insurance or self-insurance, Lessor hereby indemnifies and agrees, at its sole expense, to protect, indemnify, defend and hold Lessee, its successors and assigns, and their respective directors, officers, employees, servants, agents, partners, members and shareholders (each, a "Lessee Indemnified Party") harmless from and against and to pay any Lessee Indemnified Party on demand with respect to any and all claims, demands, actions, causes of action, losses, penalties, damages (including consequential damages), obligations, liabilities (including strict liability), judgments, costs and expenses of any and every kind or character, known or unknown, fixed or contingent, asserted against or incurred by any Lessee Indemnified Party at any time and from time to time by reason or arising out of the negligent or willful acts or omissions of Lessor or of employees, agents, assignees, contractors, invitees, visitors, subcontractors or others acting for or on behalf of Lessor.

Section 12.03 Mold

Lessee shall not create or permit to exist in or about the Premises any "Mold Condition". As used herein, the term Mold Condition shall include the presence or suspected presence of mold or any condition(s) that reasonably can be expected to give rise to or indicate the presence of Mold (as herein defined), including observed or suspected instances of water damage or intrusion, the presence of wet or damp wood, cellular wallboard, floor coverings or other materials, inappropriate climate control, discoloration of walls, ceilings or floors, complaints of respiratory ailment or eye irritation by Lessee's employees or any other occupants or invitees in the Premises, or any notice from a governmental agency of complaints regarding the indoor air quality at the Premises. As used herein, the term "Mold" shall include mold, mildew, fungus or other potentially dangerous organisms. In the event of suspected or actual Mold or Mold Conditions at the Premises, Lessee shall immediately notify Lessor in writing of the same and the precise location thereof. Lessee acknowledges the control of moisture and Mold prevention are material obligations of Lessee under this Lease, and Lessee shall, at its sole cost and expense, regularly monitor the Premises for the presence of Mold and Mold Conditions. If any Mold or Mold Conditions in or about the Premises or any other part of the Building are a result of the actions or omissions of Lessee or any Lessee's Representatives, Lessee shall promptly, at Lessee's sole cost and expense, hire a licensed and experienced Mold remediation contractor approved by Lessor in writing, to completely clean-up and remove from the Premises and the Building all such Mold or Mold Conditions, and Lessee shall indemnify, defend and hold harmless the indemnified parties and any other Lessees of the Building from and against any and all costs, expenses and claims arising therefrom or in connection therewith. All such clean-up, removal and remediation shall, in each instance, be conducted to the satisfaction of Lessor and any governmental authority with jurisdiction and otherwise in strict compliance with all applicable laws. Such clean-up, removal and remediation shall also include removal and replacement of any infected host materials as well as any repairs and refinishing required as the result of such removal and replacement. There shall be no abatement of Rent on account of any clean-up, removal or remediation of any such Mold or Mold Condition. Lessee waives, releases and discharges all indemnified parties for, from and against all claims, demands, causes of action, suits, judgments, liabilities, losses, damages and expenses (including attorneys' fees) for personal injury, bodily injury or property damages in any way arising from or relating to or associated with moisture or the growth of or the presence of Mold or Mold Conditions. Notwithstanding the foregoing, Lessee shall not be responsible for Mold or Mold Conditions that result

from (i) defects in design or construction of the Building, or (ii) the actions or omissions of any other lessee of the Building.

Section 12.04 **Environmental Waste**

Lessee shall not, nor permit another to, store, produce, or dispose of any hazardous toxic, flammable or dangerous waste, substance or material on or in the Premises, the Building, or the associated real property, except in accordance with industry standards and in conformation with all federal, state and local laws, rules, regulations and ordinances relating thereto, including all Environmental Laws as hereinafter defined. For purposes of this Lease, the phrase "hazardous, toxic, flammable, or dangerous waste, substance or material or Hazardous Material," shall include by way of illustration, but not of limitation, petroleum, asbestos, asbestos causing/containing materials, any petroleum fuel, urea formaldehyde, any radioactive material and any hazardous, toxic, flammable or dangerous waste, infectious wastes, biomedical and medical wastes, substance or material defined as such in, or for purposes of, or regulated by, any Environmental Law. Environmental Laws shall mean any and all federal, state, municipal and local laws, statutes, ordinances, rules, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, determinations, directives, awards, standards, guidances, and policies, whether statutory or common law, as amended from time to time, now or hereafter in effect, or other legal requirement promulgated or agreement, in effect or pertaining to the indoor or outdoor environment, public health and safety, occupational health or safety or industrial hygiene, or concerning the protection of, or regulation of the discharge of substances into, the environment or concerning the health or safety of persons with respect to environmental hazards including, without limitation, the use, generation, manufacture, production, storage, release, discharge, disposal, handling, treatment, removal, decontamination, cleanup, transportation or regulation of any Hazardous Material, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 et seq., Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §§6901 et seq., Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. §§1251 et seq., Clean Air Act of 1966, as amended, 42 U.S.C. §§7401 et seq., Toxic Substances Control Act of 1976, 15 U.S.C. §§2601 et seq., Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. §§651 et seq., Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. §§11001 et seq., National Environmental Policy of 1975, 42 U.S.C. §§4321 et seq., Safe Drinking Water Act of 1974, as amended, 42 U.S.C. §300(f) et seq., the Hazardous Materials Transportation Act, 42 U.S.C. §§1801 et seq., the Federal Insecticide, Fungicide, and Rodenticide Act, 42 U.S.C. §§7401 et seq., any wetlands laws including, without limitation, 33 C.F.R. §328.3 and any similar or implementing law of the state in which the Building is located, and all amendments, rules, and regulations promulgated thereunder or implementing the same.

ARTICLE XIII. DEFAULT & REMEDIES

Section 13.01 **Default by Lessee**

The occurrence of any one or more of the following shall be deemed an "Event of Default" hereunder: (i) if Lessee fails to pay any Base Rent, any Additional Rent or any additional charge, sum or cost to be paid by Lessee within five (5) days after the same shall be due and payable hereunder; (ii) if Lessee fails promptly and fully to perform and observe any of the terms, provisions or conditions of this Lease and such failure cannot be corrected by the payment of money, and shall continue uncorrected for a period of thirty (30)

days (or any shorter period as may be specified in any Article or Section of this Lease) after receipt of written notice thereof from Lessor, provided that this period shall be extended for an additional thirty (30) days as long as Lessee commences to cure such failure within said thirty (30) day period and proceeds diligently thereafter to effect such cure; (iii) Lessee shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall file a petition in bankruptcy, or shall be adjudicated as bankrupt or insolvent, or shall file a petition in any proceeding seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, or shall file an answer admitting or fail timely to contest the material allegations of a petition filed against it in any such proceeding; (iv) a proceeding is commenced against Lessee seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, and such proceeding shall not have been dismissed within ninety (90) days after the commencement thereof; (v) Lessee shall abandon or vacate all or any portion of the Premises or fail to take possession thereof as provided in this Lease for a period of ten (10) days or longer; or (vi) Lessee shall do or permit to be done anything which creates a lien upon the Premises or the Property and such lien is not removed or discharged within thirty (30) days after the filing thereof upon the occurrence of any such Event of Default.

Section 13.02 Remedies

Upon the occurrence of an Event of Default under this Lease, if applicable, and at any time thereafter until Lessor waives the default in writing or acknowledges cure of the default in writing, at Lessor's option, in its sole and absolute discretion, without declaration, notice of nonperformance, protest, notice of protest, notice of default, notice to quit or any other notice or demand of any kind, Lessor may exercise any and all rights and remedies provided in this Lease, or otherwise provided at law or in equity, including, without limitation, any one or more of the following remedies:

(a) Enforcement Actions. Lessor may enforce by all legal suits and other means, its rights hereunder, *including the collection of Rent and all other sums payable by Lessee hereunder, without reentering or resuming possession of the Property and without terminating this Lease.*

(b) Termination of Lease. Terminate this Lease in which event Lessee shall immediately surrender the Premises to Lessor in accordance with the terms of this Lease, and if Lessee fails to do so, Lessor may, without prejudice to any other remedy which Lessor may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Lessee and any other person who may be occupying said Premises or any part thereof, without being liable for prosecution or any claim for damages. Lessee hereby waives any statutory requirement of prior written notice for filing eviction or damage suits for nonpayment of Rent.

(c) Possession without Termination. Lessor may enter upon and take possession of the Premises without terminating this Lease and expel or remove Lessee and its effects without being liable to prosecution of any claims for damages and Lessor may relet the Property for the account of the Lessee.

(d) Protection of Property. In the event Lessee vacates or abandons the Premises, Lessor may enter upon and take possession of the Premises in order to protect it from deterioration or damage. Any personal property belonging to Lessee and left on the Premises shall be deemed to be abandoned, at the option of Lessor, except such property as may be mortgaged by Lessee.

(e) Right of Entry. Lessor may enter upon the Premises without being liable for prosecution or any claim for damages therefor, and do whatever Lessee is obligated to do under the terms of this Lease and Lessee agrees that Lessor shall not be liable for any damages resulting to the Lessee from such action. Lessor shall have the right to permanently or temporarily exclude Lessee and its agents, employees, representatives, invitees and visitors from the Property.

(f) Lessor's Right to Cure. If Lessee shall fail to make any payment, or to perform any act required to be made or performed under this Lease and to timely cure the same, Lessor, without waiving or releasing any obligation or Event of Default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Lessee, and may, to the extent permitted by law, enter the Premises for such purpose and take all such action thereon as, in Lessor's opinion, may be necessary or appropriate therefor, and no such entry shall be deemed an eviction of Lessee. Lessee shall immediately repay the same to Lessor, upon demand, together with all costs and expenses so incurred, together with the Late Charge and Default Interest thereon, all to the extent permitted by law, from the date on which such sums or expenses are paid or incurred by Lessor. The obligations of Lessee and rights of Lessor contained in this Article shall survive the expiration or earlier termination of this Lease.

Section 13.03 **Permissible Actions**

Lessor may take whatever action at law or in equity as may appear necessary or desirable to collect the Rent and other amounts payable under this Lease then due and thereafter to become due, or to enforce performance and observance of any obligations, agreements or covenants of Lessee under this Lease or any Guaranty, if applicable, and all such sums paid by Lessor with respect thereto shall be paid to Lessor by Lessee. If Lessor must bring suit in order to collect any deficiency, Lessor may allow such deficiencies to accumulate and bring an action on several or all of the accrued deficiencies at one time. Any such suit shall not prejudice in any way the right of Lessor to bring a similar action for any subsequent deficiency or deficiencies.

Section 13.04 **Mitigation of Damages.**

With regard to the provisions of this Lease or the present or future laws of the State of Tennessee that require Lessor to mitigate or seek to mitigate its damages or to use efforts to re-let the Premises, it is acknowledged by Lessor and Lessee that the following are procedures setting forth Lessor's duty to mitigate the damages resulting from a default by Lessee. If the procedures set forth below are substantially followed by Lessor, Lessor shall be presumptively deemed to have discharged its duty to Lessee to mitigate damages:

(a) Commencement of Duty to Mitigate. Lessor's duty to mitigate shall arise on the date Lessee relinquishes any claim to possession of the Premises by written notice to Lessor and Lessor accepts such notice.

(b) Clean. In order to market the Premises in a suitable condition, Lessor shall be obligated to clean the Premises. Except for the reasonable cost to clean the Premises, Lessor shall not be required to spend any money to make the Premises ready for a replacement Lessee.

(c) Market Premises. Lessee acknowledges and agrees that Lessor is only obligated to market the Premises in the same manner that Lessor markets, or has previously marketed, other similar medical office space that Lessor owns; provided, however, Lessor shall only be obligated to incur and pay costs

and expenses to procure a replacement Lessee that Lessor would ordinarily incur and pay in connection with leasing space comparable to the Premises, including, without limitation, Lessor's legal costs to prepare a new lease, and reasonable broker's fees and advertising costs.

(d) Term and Rates. Lessor shall not be required to re-let the Premises for a term longer than the remaining term of this Lease. During any period of re-letting during the term of this Lease, Lessor shall be required to re-let the Premises at a base rental rate that is, at a minimum, equal to the lesser of the prevailing fair market rates for similar medical space and the Base Rent provided under this Lease. Subject to the foregoing, reletting shall be upon such terms and conditions (which may include free Rent, Rent concessions or Lessee inducements of any nature) as Lessor, in its absolute discretion, may determine.

(e) Replacement Lessee's Use. Lessor shall not be required to accept any person or entity as a Lessee (regardless of their operational abilities and credit rating) who or which proposes a change in the use of the Premises permitted under this Lease to a use which violates any prohibition on use in the Building; is incompatible with the nature and character of the Premises; creates a parking demand in excess of the demand created by Lessee, or with any use of any person or entity that is at that time a Lessee or lease prospect of Lessor for other space in the Building.

(f) Replacement Lessee's Financial and Operational Capability. Before re-letting the Premises to any replacement Lessee, Lessor may require the proposed replacement Lessee to demonstrate the same financial and operational capability that Lessor would require from any other similar lease prospect as a condition to leasing the Premises.

(g) Partial Reletting. Lessor may elect to re-let all or any marketable part of the Premises, and reletting of less than all of the Premises shall not be deemed to constitute an acceptance and surrender of the portion of the Premises not so re-let.

(h) Reletting to Existing Lessee. If any reletting by Lessor is to an existing tenant of Lessor and such reletting results in a vacancy in the Premises or other Premises owned by Lessor, Lessee shall not receive any credit for such reletting. Any reletting by Lessor shall be without notice to Lessee, and if Lessor has not terminated this Lease, the reletting may be in the name of Lessee or Lessor, as Lessor shall elect.

Section 13.05 **Damages.**

Lessee acknowledges and agrees that: (i) the termination of this Lease; (ii) the repossession of the Premises; (iii) the failure of Lessor, notwithstanding its duty to mitigate as provided herein, to relet the Premises or any part thereof; (iv) the reletting of all or any portion of the Premises; (v) the failure or inability of Lessor to collect or receive any rentals due upon any such reletting; or (vi) the exercise by Lessor of any of its remedies hereunder, shall not relieve Lessee of its liabilities and obligations hereunder, all of which shall survive any such termination, repossession or reletting without diminution. Lessee shall be liable to Lessor for the following damages, costs and expenses:

(a) Arrearages and Acceleration of Rent. Lessee, immediately and without further demand, shall pay to Lessor all arrearages of Rent and all other sums due and owing by Lessee to Lessor. Lessor may demand a final settlement and at any time, upon demand, Lessor may, in accordance with applicable law, accelerate all of the unpaid Rent hereunder based on the then current Rent (as adjusted during the Term) using a discount rate equal to the interest rate on the Ten Year Treasury Note as published in the Wall Street Journal, so that the aggregate Rent for the unexpired Term of this Lease becomes immediately due

and payable. In addition, until Lessor is able to relet the Premises, although Lessor shall be under no obligation to relet, except as set forth in Section 13.04, Lessee shall also pay to Lessor on or before the first (1st) day of each calendar month, of the unexpired Term, the installments of Monthly Base Rent, Additional Rent and all other sums due hereunder.

(b) Mitigation Expenses and Costs. Lessee also shall pay to Lessor, on demand, all costs reasonably incurred by Lessor to mitigate (regardless of the success thereof), and in reletting all or any part of the Premises in furtherance thereof (the "Mitigation Expenses"), to Lessor in full, with interest, before any sums actually received from re-letting are applied to offset any Rent or other charges due from Lessee to Lessor under this Lease. Mitigation Expenses shall include all costs and expenses reasonably incurred by the Lessor to relet, including, but not limited to: (i) the cost of cleaning, renovating, repairing and altering the Premises for a new Lessee or Lessees; (ii) all expenses incurred by Lessor in repossessing the Premises (including any increase in insurance premiums caused by the vacancy of the Premises); (iii) the cost of advertisements, brokerage and leasing commissions and fees; (iv) all concessions granted to a new tenant upon reletting; (v) all losses incurred by Lessor as a direct result of Lessee's default; (vi) a reasonable allowance for Lessor's administrative efforts, salaries and overhead attributable directly or indirectly to Lessee's default and related to the foregoing matters; and (vii) reasonable attorneys' fees and other costs and expenses incurred by Lessor in connection with such reletting.

(c) Application of Rent upon Reletting. Lessee agrees that if Lessor re-lets all or any portion of the Premises, any rents received by Lessor under the new lease shall be applied first to the Mitigation Expenses and interest payable by Lessee to Lessor, and Lessee shall not receive any credit against Rent and other sums due from Lessee to Lessor hereunder until all Mitigation Expenses have been paid. After the Premises has been relet by Lessor, Lessee shall pay to Lessor on the fifth (5th) day of each calendar month the difference between the Rent and any other charges due under this Lease for the preceding calendar month and the rent (after application of such rent to any unpaid Mitigation Expenses) actually collected by Lessor for such month from the new Lessee. After payment of all Mitigation Expenses, any amount collected by Lessor from the new Lessee for any calendar month, in excess of the Rent and any other charges under this Lease, shall be credited to Lessee first, in reduction of Lessee's liability for any previous calendar month for which the amount collected by Lessor is less than the Rent and other charges due from Lessee; with any excess applied to the Rent and other charges due from Lessee for any future month of Lessee's unexpired Term. Lessee shall have no right to any rent or other charges collected by Lessor from any new Lessee, except for the credit set forth in this Section. Lessee acknowledges and agrees that Lessor's reletting of the Premises shall not be deemed an acceptance of Lessee's surrender of the Premises unless Lessor expressly notifies Lessee of such acceptance in writing, Lessee hereby acknowledging that Lessor shall otherwise be reletting as Lessee's agent, in Lessor's discretion and Lessee furthermore hereby agreeing to pay to Lessor on demand any deficiency that may arise between the Rent and other charges provided in this Lease and that actually collected by Lessor.

(d) Waiver by Lessor. Without waiving any prior or subsequent Event of Default, Lessor may waive any Event of Default or, with or without waiving any default, remedy any default.

Section 13.06 Obligations under the Bankruptcy Code

Upon filing of a petition by or against Lessee under the Bankruptcy Code, Lessee, as debtor or as debtor-in-possession, and any trustee who may be appointed with respect to the assets of or estate in bankruptcy of Lessee, agree to pay monthly in advance on the first day of each month, as reasonable compensation

for the use and occupancy of the Premises, an amount equal to all Rent due pursuant to this Lease. Included within and in addition to any other conditions or obligations imposed upon Lessee or its successor in the event of the assumption and/or assignment of this Lease are the following: (a) the cure of any monetary defaults and reimbursement of pecuniary loss within not more than five (5) business days of assumption and/or assignment; (b) the deposit of an additional amount equal to not less than six (6) months' Base Rent, which amount is agreed to be a necessary and appropriate deposit to adequately assure the future performance under this Lease of the Lessee or its assignee; and (c) the continued use of the Premises. Nothing herein shall be construed as an agreement by Lessor to any assignment of this Lease or a waiver of Lessor's right to seek adequate assurance of future performance in addition to that set forth hereinabove in connection with any proposed assumption and/or assignment of this Lease.

Section 13.07 Application of Funds

Any payments otherwise made by Lessee that are received by Lessor under any provision of this Lease during the existence or continuance of any Event of Default shall be applied to Lessee's obligations in the order which Lessor may reasonably determine or as may be prescribed by the laws of the state in which the Premises is located.

Section 13.08 Right of Setoff

Lessor may, and is hereby authorized by Lessee to, at any time and from time to time without advance notice to Lessee (any such notice being expressly waived by Lessee), to setoff or recoup and apply (i) any and all sums held by Lessor, including but not limited to all monies deposited or set aside as reserves under this Lease, (ii) any indebtedness of Lessor to Lessee, and (iii) any claim of any kind or nature by Lessee (the "Claim"), if applicable, against Lessor, against any obligations of Lessee hereunder and against any Claim by Lessor against Lessee, whether or not such obligations or Claim of Lessee are matured and whether or not Lessor has exercised any other remedies hereunder. The rights of Lessor under this section are in addition to any other rights and remedies Lessor may have against Lessee.

Section 13.09 Notices by Lessor

The provisions of this Article concerning notices shall be governed by Section 17.13 hereof.

Section 13.10 Remedies Cumulative

To the extent permitted by law, each legal, equitable or contractual right, power and remedy of Lessor now or hereafter provided either in this Lease, if applicable or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power and remedy available to Lessor. Lessor's election of any remedy shall in no way prejudice Lessor's right at any time thereafter to cancel said election in favor of another remedy or to pursue other remedies simultaneously. Forbearance by Lessor to enforce one or more of the remedies herein provided upon an Event of Default shall not constitute a waiver of such default. No act or thing done by Lessor or its agents during the Term shall be deemed an acceptance of an attempted surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless made in writing and signed by Lessor. No reentry or taking possession of the Premises by Lessor shall be construed as an election on its part to terminate this Lease, unless a written notice of such intention is given to Lessee. Notwithstanding any such reletting or reentry or taking possession, Lessor may at any time thereafter elect to terminate this Lease for a previous default. Lessor's acceptance of Rent following an Event of Default hereunder shall not be construed as Lessor's waiver of such Event of Default. No waiver by Lessor of any violation or breach of any of the

terms, provisions and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants herein contained. Forbearance by Lessor to enforce one or more of the remedies herein provided upon an Event of Default shall not be deemed or construed to constitute a waiver of any other violation or default. No provisions of this Lease shall be deemed to have been waived by Lessor unless waiver is in writing and is signed by Lessor. Lessor shall at all times have the rights and remedies specified above and may further sue to seek any declaratory, injunctive or other equitable relief, and to enforce specifically this Lease or to restrain or enjoin any violation or breach of any provision hereof, and to sue for and collect any unpaid Base Rent and other sums and charges due and payable hereunder and may also exercise all rights and remedies as are available at law or in equity.

Section 13.11 **Multiple Defaults**

If three (3) or more monetary defaults occur during the Initial Term or any Renewal Term of this Lease, regardless of whether any such monetary default is cured, then, in addition to all other remedies available to Lessor, Lessee shall, within ten (10) days after demand by Lessor, post a security deposit, or increase the existing Security Deposit, in an amount equal to three (3) months' installments of Rent at the time of Lessor's demand. Any security deposit posted under the foregoing sentence shall be governed by the Security Deposit article of this Lease.

If three (3) or more Events of Default occur under this Lease during the Initial Term or any Renewal Term and written notices thereof have been timely given to Lessee, notwithstanding any provision to the contrary in this Lease and in addition to all other remedies available to Lessor, any failure by Lessee to comply with any obligation under this Lease shall constitute an immediate Event of Default without notice or any grace period.

ARTICLE XIV. LIMITATION OF LESSOR'S LIABILITY

Section 14.01 **Limitation of Lessor's Liability**

As a material part of the consideration to Lessor, Lessee hereby agrees that neither Lessor nor Lessor's shareholders, partners, members, directors, managers, officers, employees, agents, contractors, representatives, successors and assigns (collectively, "Lessor's Parties") shall be liable for, and Lessee hereby waives all claims against Lessor and Lessor's Parties and assumes all risk relating to any loss, damage, injury or death to the person, business (or any loss of income therefrom or consequential damages), goods, wares, merchandise or other property of Lessee, Lessee's employees, agents, contractors, invitees, customers, permitted sublessees or assignees or any other person in or about the Premises, resulting from any cause whatsoever, including, but not limited to: (a) theft, illegal or unauthorized entry to the Building, act of God, public enemy, injunction, riot, strike, insurrection, war, terrorist actions, court order, requisition, order of any governmental authority, fire, explosion, falling objects, hurricane, earthquake, tornado, flood, wind or similar storms or disturbances, mold, water, rain or snow, leak or flow of water (including water from the elevator system); (b) any interruption or any discontinuance of utilities nor will such discontinuance in any way be construed as an eviction of Lessee or cause an abatement of rent or operate to release Lessee from any of Lessee's obligations under this Lease provided that Lessor has not intentionally caused the discontinuance of utilities to the Premises; (c) gasoline, oil, steam, gas, electricity, or water, rain or snow which may leak or flow from the roof, street, sewer, gas mains or subsurface area or from any part of the Premises; (d) dampness or from the breakage, leakage, obstruction, or other defects of the pipes, sprinklers, wires, appliances, plumbing, air

conditioning, or lighting fixtures of the Building; (e) from construction, repair, or alteration of the Building; (f) from any acts or omissions of any other occupant or visitor of the Building; (g) from the failure of Lessor to enforce any of the Building Rules and Regulations or the terms, covenants, and conditions of any other lease against any other Lessee or any other persons, and Lessor Parties shall not be liable to Lessee for violation of the same by any other Lessee, its employees, agents, guests, clients, customers, licensees, invitees, or any other person; or (h) from any other cause beyond Lessor's control nor for interference with light or other incorporeal hereditaments by anybody, or caused by any public or quasi-public work, or Force Majeure, unless any of the foregoing results from gross negligence or willful misconduct of Lessor.

Section 14.02 Lessor

With respect only to obligations to be performed by Lessor under this Lease, the term "Lessor" means only the current Lessor of the fee title to the Property or the leasehold estate under a ground lease of the Property at the time in question. Each Lessor is obligated to perform the obligations of Lessor under this Lease only during and with respect to the time such Lessor owns such interest or title. Any Lessor who transfers its title or interest is relieved of all liability with respect to the obligations of Lessor under this Lease to be performed on or after the date of transfer, except as to those obligations to have been performed prior to the date of transfer. However, each Lessor shall deliver to its transferee all funds that Lessee previously paid, if such funds have not yet been applied under the terms of this Lease. Within thirty (30) days following the date of such transfer, Lessor shall notify Lessee in writing of the name, address and telephone number (both voice and facsimile) of any such transfer; provided, however, that Lessor's failure to give such notice shall in no way affect Lessee's obligations under this Lease.

Section 14.03 Limitation on Lessee's Recourse

Lessee's sole recourse against Lessor, and any successor to the interest of Lessor, is to the interest of Lessor, and any such successor, in the Building. Lessee will not have any right to satisfy any judgment which it may have against Lessor, or any such successor, from any other assets of Lessor or any such successor. In this section, the terms "Lessor" and "successor" include the respective shareholders, venturers, partners, and members of "Lessor" and "successor" and the officers, directors, and employees of the same. The provisions of this Section are not intended to limit Lessee's right to seek injunctive relief or specific performance.

ARTICLE XV. SUBORDINATION AND ATTORNMENT

Section 15.01 Subordination

Lessor shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Property, any advances made on the security thereof, and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Lessee shall cooperate with Lessor and any lender that is acquiring a lien or security interest in the Property, provided that such lender provides Lessee with a written non-disturbance agreement on terms and conditions reasonably acceptable to Lessee.

Section 15.02 Attornment

Lessor shall have the right to assign any of its rights and obligations under this Lease, whereupon Lessor shall be relieved of, and such assignee shall succeed to and be liable for, all obligations of Lessor

hereunder. If Lessor's interest in the Premises is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee or purchaser at a foreclosure sale or by deed in lieu of foreclosure, Lessee shall attorn to the transferee of or successor to Lessor's interest in the Premises and recognize such transferee or successor as Lessor under this Lease, provided that such transferee or successor assumes all of the obligations of Lessor from and after the date of such transfer.

Section 15.03 Signing of Documents

Lessee shall execute, acknowledge and deliver any instruments or documents necessary or appropriate to evidence any such attornment, subordination or agreement to do so within ten (10) business days after written request. If Lessee fails to do so within such ten (10) business day period, then Lessee hereby makes, constitutes and irrevocably appoints Lessor, or any transferee or successor of Lessor, the attorney-in-fact of Lessee to execute, acknowledge and deliver any such instrument or document, and Lessee shall be liable to Lessor for all damages incurred by Lessor as a result of Lessee's failure to execute and deliver such instruments or documents.

Section 15.04 Estoppel Certificates

Upon Lessor's written request, Lessee shall execute, acknowledge and deliver to the requesting party a written statement certifying such representations or information with respect to Lessor or this Lease as Lessor may reasonably request, or that any prospective purchaser of the Property or lender to Lessor may reasonably require. Lessee shall deliver such statement to Lessor within ten (10) business days after the request, and, in the event Lessee fails to deliver such statement, Lessor and any third party may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Lessor, (ii) that this Lease has not been canceled or terminated except as otherwise represented by Lessor, (iii) that not more than one month's Rent has been paid in advance, and (iv) that Lessor is not in default under this Lease. In such event, Lessee shall be estopped from denying the truth of such matters.

ARTICLE XVI. QUIET ENJOYMENT OF PREMISES

Section 16.01 Covenant of Quiet Enjoyment

Lessee, on paying the Rent and any other amounts due hereunder and keeping and performing the agreements and covenants herein contained, shall have the peaceful and quiet enjoyment of the Premises for the Term hereof, subject, however, to the provisions of this Lease.

ARTICLE XVII. ADDITIONAL PROVISIONS

Section 17.01 Successors and Assigns

Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

Section 17.02 Parties

The words "Lessor" and "Lessee" as used herein shall include the parties to the Lease, whether singular or plural, masculine or feminine, or corporate, partnership, limited liability company or other entity and their heirs, personal representatives, successors and assigns.

Section 17.03 **Waivers**

No covenant, term or condition hereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver of the breach of any covenant, term or condition shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, term or condition of this Lease. Acceptance by Lessor of any performance by Lessee after the time the same shall have become due shall not constitute a waiver by Lessor of the breach or default of any covenant, term or condition of this Lease unless otherwise expressly agreed to by Lessor in writing.

Section 17.04 **No Memorandum of Lease**

Neither this Lease nor a memorandum or short form of this Lease shall be recorded in any public records.

Section 17.05 **Entire Agreement**

This Lease, together with any later written modifications and amendments thereto, shall constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede any prior or contemporaneous agreements or understandings, whether written or oral, which the parties, their agents or representatives may have had relating to the subject matter hereof. No modification, alteration or waiver of any term, condition or covenant of this Lease shall be valid unless in writing, dated and signed by both Lessor and Lessee.

Section 17.06 **Authority**

Each individual executing this Lease on behalf of Lessor or Lessee represents and warrants that he or she is duly authorized and has full right and power to execute and deliver this Lease on behalf of such party, and that this Lease is binding upon such party in accordance with its terms. Lessee shall deliver to Lessor, within ten (10) days after execution of this Lease, a certified copy of a resolution of the Board of Directors of Lessee authorizing or ratifying the execution of this Lease on behalf of Lessee.

Section 17.07 **Brokerage Commission**

Each party hereby acknowledges, represents and warrants to the other party that, except as otherwise provided in this Lease, no real estate broker(s) or agent(s) was employed by it in connection with the negotiation and execution of this Lease. Each party shall indemnify the other party against, and hold it harmless from, any liability for the breach of such representation and warranty on its part and shall pay any compensation to any other broker, finder or other person who may be deemed or held entitled thereto because of a relationship with such party.

Section 17.08 **Governmental Requirements**

Lessee shall, at its own expense, promptly comply with all applicable laws, codes, ordinances, rules or regulations promulgated by any governmental authority and all requirements of any legally constituted public authority necessitated by reason of Lessee's use or occupancy of the Premises (or any portion thereof). In the event that any documentary stamp tax, sales tax or other tax levied on the rental, leasing or letting of the Premises (excluding income taxes), whether local, state or federal, is required to be paid due to the execution and/or recording hereof or for any other reason, the cost thereof shall be borne by Lessee.

Section 17.09 **Force Majeure**

If either party cannot perform any of its obligations due to acts of God, war, civil commotion, terrorist activities, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, government regulation or restriction, and unseasonable weather conditions, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events; provided, however, that the terms of this Section 17.09 shall not apply to any obligations hereunder involving any payments by one party to the other, including, without limitation, Lessee's required payments of Rent hereunder.

Section 17.10 **Signage Rights; Signs**

(a) Subject to applicable zoning laws and sign regulations, Lessee shall have the exclusive right to determine the design and placement of, and to place, exterior signage bearing Lessee's name and logo, if so desired, at the top of the Building on each of four (4) sides thereof. Lessee shall additionally have the exclusive right to determine the placement and design of its name and logo on each sign located in or on the Building or otherwise situated on the Property.

(b) Lessee shall not paint or place signs upon the windows or corridor doors of the Premises, nor erect or place any signs that are visible from the exterior of the Building, nor place any signs upon the outside walls or the roof of the Premises or the Building except with the express, written consent of Lessor, which shall not be unreasonably withheld, delayed or conditioned.

Section 17.11 **First Right of Negotiation for Leasing of Vacant Office Space**

With respect to "**Vacant Office Space**" within the Building (as defined below), prior to the Lessor leasing any such Vacant Office Space (as defined below), the Lessor and Lessee shall follow the procedures set forth below. As used herein, the term "**Vacant Office Space**" shall mean (i) office space in the Building that is vacant at such time the annual notice is due to Lessee from the Lessor, and (ii) office space in the Building which is under a lease that (x) is within thirty (30) days of the expiration date for such lease and (y) has not been renewed or extended by the tenant occupying such office space.

(a) The Lessor shall, on or before March 31st of each calendar year, notify Lessee in writing of all Vacant Office Space known to the Lessor that may be or become available in the Building through September 30th of the following calendar year;

(b) Lessee shall have ninety (90) days from its receipt of any such written notice from the Lessor to identify to the Lessor in writing the specific Vacant Office Space that Lessee or an Affiliate thereof desires to lease;

(c) Any such Vacant Office Space not subject to lease renewal or extension rights of the current tenant and not so identified by Lessee in writing to the Lessor as provided in Section 17.11(b) above shall be free of the provisions of this Section 17.11, and the Lessor shall be free to market such Vacant Office Space without any further obligations to Lessee hereunder;

(d) Lessee and the Lessor shall negotiate diligently and in good faith on a lease of such Vacant Office Space so identified by Lessee, at such market rental rate (inclusive of a lessee improvement allowance) and on such other terms that the Lessor and Lessee determine;

(e) If Lessee and the Lessor are unable to reach agreement within one hundred eighty (180) days on any lease of any one of the Vacant Office Space so identified in writing by Lessee as provided in Section 17.11(b) above, such Vacant Office Space shall after such one hundred eighty (180) day period be free of the provisions of this Section 17.11, and the Lessor shall be free to market such Vacant Office Space without any further obligations to Lessee hereunder; and

(f) Notwithstanding the foregoing, Lessee acknowledges and agrees that to the extent that the then current tenant in any of such Vacant Office Space has any renewal or extension rights under its lease of such space, such renewal or extension rights shall be superior to the rights of Lessee hereunder to lease such space.

(g) The parties agree and acknowledge that Lessee shall also have a right of first negotiation with respect to vacant office space becoming available by reason of lease termination prompted by circumstances other than the expiration of a lease term. Lessor shall notify Lessee of any pending lease termination within ten (10) days of its receipt from or delivery to the tenant of a notice of lease termination. Lessee shall have thirty (30) days thereafter to notify Lessor that it, or its assignee, desires to lease all or a portion of the subject space. Lessee and the Lessor shall negotiate diligently and in good faith on a lease of the subject space so identified by Lessee, at such market rental rate (inclusive of a lessee improvement allowance) and on such other terms that the Lessor and Lessee determine. If Lessee and Lessor are unable to reach agreement within sixty (60) days regarding the lease for the subject space, such space shall after the sixty (60) day period be free of the provisions of this Section 17.11, and the Lessor shall be free to market such space without any further obligations to Lessee hereunder.

Section 17.12 **Re-Entry by Lessor**

Lessee shall permit Lessor and its employees, representatives, invitees and agents, and the representatives of any mortgagee of the Building to enter the Premises upon receiving reasonable notice (except for emergencies, when no notice need be given), at all reasonable times, including, without limitation, normal business hours, for the purpose of inspecting the same, showing the same to prospective purchasers, mortgagees or tenants of the Premises and/or the Building or for the purpose of maintaining, repairing and making such alterations or improvements to the Building, as deemed necessary by Lessor, without any rebate of rent to Lessee for any loss of occupation or quiet enjoyment of the Premises thereby occasioned. Lessor will retain a key to the Premises for such purpose.

Section 17.13 **Notices**

All notices, requests and other communications under this Lease shall be in writing and shall be either (a) delivered in person, (b) sent by certified mail, return receipt requested, (c) delivered by a recognized delivery service or (d) sent by facsimile transmission and addressed as follows:

If intended for Lessor:

Regional One Properties, Inc.
877 Jefferson Avenue, Suite AG69
Memphis, Tennessee 38103
Attention: J. Richard Wagers, Jr.
Email: rwagers@regionalonehealth.org
Fax No.: 901-545-6999

and

Scott Honan
Richmond Honan Development & Acquisitions
Suite 140
300 Colonial Center Parkway
Roswell, Georgia 30076
Email: scotth@richmondhonan.com

with a copy to:

Regional One Properties, Inc.
877 Jefferson Avenue, Suite AG69
Memphis, Tennessee 38103
Attention: Monica N. Wharton, Esq.
Email: mwharton@regionalonehealth.org
Fax No.: 901-545-8194

with a copy to:

Butler Snow LLP
6075 Poplar Avenue 5th Floor
Memphis, Tennessee 38119
Attention: Paula Daniel
Email: paula.daniel@butlersnow.com
Fax No.: (901) 680-7201

With a copy to:

David Minkin
The Minkin Group, LLC
36 Delta Place, NE
Atlanta, Georgia 30307
Email: dminkin@theminkingroup.com

If intended for Lessee:

Shelby County Health Care Corporation
877 Jefferson Avenue, Suite AG69
Memphis, Tennessee 38103
Attention: J. Richard Wagers, Jr.
Email: rwagers@regionalonehealth.org
Fax No.: 901-545-6999

with a copy to:

Shelby County Health Care Corporation
877 Jefferson Avenue, Suite AG69
Memphis, Tennessee 38103
Attention: Monica N. Wharton, Esq.
Email: mwharton@regionalonehealth.org
Fax No.: 901-545-8194

with a copy to:

Butler Snow LLP
6075 Poplar Avenue 5th Floor

Memphis, Tennessee 38119
Attention: Paula Daniel
Email: paula.daniel@butlersnow.com
Fax No.: (901) 680-7201

Or at such other address, and to the attention of such other person, as the parties shall give notice as herein provided. A notice, request and other communication shall be deemed to be duly received if delivered in person or by a recognized delivery service, when left at the address of the recipient and if sent by facsimile, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number; provided that if a notice, request or other communication is served or refused by hand or is received by facsimile on a day which is not a business day, or after 5:00 p.m. on any business day at the addressee's location, such notice or communication shall be deemed to be duly received by the recipient at 9:00 a.m. on the first business day thereafter.

Section 17.14 **Financial Reports**

Lessor reserves the right to obtain within five (5) business days after written request to Lessee, the following information: (a) if a corporate tenant, then (i) corporate financial statements of assets and liabilities and income for the most recent annual and interim periods, certified as true and correct by an officer of the corporation, and (ii) corporate tax returns for the most recent annual period; or (b) if an individual tenant, then (i) a current personal financial statement in a form reasonably acceptable to Lessor, and (ii) individual tax returns for the most recent annual period. Lessor agrees that such information and documents will be requested only with respect to a prospective financial transaction involving the Building or a monetary default by Lessee, will remain confidential, and will not be disclosed or distributed by Lessor to any person or entity except in connection with any such purposes.

Section 17.15 **Covenant of Confidentiality**

All terms, provisions, conditions, negotiations, correspondence, space plans, and other information of or pertaining to this Lease are to be kept strictly confidential, and Lessee hereby covenants that Lessee, its agents and assigns shall not disclose the terms, provisions or conditions of this Lease to any other party without having first obtained the written consent of Lessor. Lessee agrees that Lessor may disclose to third parties, without notice to Lessee, the following general information regarding this Lease: (i) Lessee's name; (ii) name and location of the Building; (iii) square footage of the Premises; (iv) length of the Lease Term; and (v) Lessee's Permitted Use.

Section 17.16 **Time of Essence**

Time is of the essence for this Lease.

Section 17.17 OFAC Compliance

(a) As used herein "Blocked Party" shall mean any party or nation that (a) is listed on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the U.S. Treasury ("OFAC") pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) or other similar requirements contained in the rules and regulations of OFAC (the "Order") or in any enabling legislation or other Executive Orders in respect thereof (the Order and such other rules, regulations, legislation, or orders are collectively called the "Orders") or on any other list of

terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders (such lists are collectively referred to as the "Lists"); or (b) has been determined by competent authority to be subject to the prohibitions contained in the Orders.

(b) As a material inducement for Lessor entering into this Lease, Lessee warrants and represents that *none of Lessee, any affiliate of Lessee, any partner, member or stockholder in Lessee or any affiliate of Lessee, or any beneficial owner of Lessee, any affiliate of Lessee or any such partner, member or stockholder of Lessee (collectively, a "Lessee Owner"): (a) is a Blocked Party; (b) is owned or controlled by, or is acting, directly or indirectly, for or on behalf of, any Blocked Party; or (c) has instigated, negotiated, facilitated, executed or otherwise engaged in this Lease, directly or indirectly, on behalf of any Blocked Party. Lessee shall immediately notify Lessor if any of the foregoing warranties and representations becomes untrue during the Term.*

(c) Lessee shall not: (a) transfer or permit the transfer of any interest in Lessee or any Lessee Owner to any Blocked Party; or (b) make a Transfer to any Blocked Party or party who is engaged in illegal activities.

(d) If at any time during the Term (a) Lessee or any Lessee Owner becomes a Blocked Party or is convicted, pleads nolo contendere, or is indicted, arraigned, or custodially detained on charges involving money laundering or predicate crimes to money laundering; (b) any of the representations or warranties set forth in this Section become untrue; or (c) Lessee breaches any of the covenants set forth in this Section, the same shall constitute an Event of Default. In addition to any other remedies to which Lessor may be entitled on account of such Event of Default, Lessor may immediately terminate this Lease and refuse to pay any allowance or other disbursements due to Lessee under this Lease.

Section 17.18 **Severability; Governing Law; Jurisdiction and Venue**

The invalidity or unenforceability of any provisions of this Lease shall have no effect on the validity or enforceability of any other provision of this Lease, or the validity or enforceability of such provision in any other permitted context hereunder. This Lease shall be governed by and construed in accordance with the laws of the State of Tennessee.

Section 17.19 **Health Insurance Portability and Accountability Act**

Lessor and Lessee hereby acknowledge and agree that under the Lease: (a) Lessee is not disclosing to Lessor, nor otherwise providing Lessor access to, "protected health information," as defined in the Standards for Privacy of Individually Identifiable Health Information implementing the privacy requirements of the Administrative Simplification subtitle of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) set forth at 45 C.F.R. Parts 160 and 164 (the "HIPAA Privacy Standards"); and (b) Lessor is not a "business associate," as defined in the HIPAA Privacy Standards, of Lessee, and Lessor has no obligation to enter into, and Lessee shall not request that Lessor enter into, a business associate contract under Section 164.504(e) of the HIPAA Privacy Standards.

Section 17.20 **Counterparts**

This Lease may be executed in any number of counterparts, each of that shall be deemed an original.

Section 17.21 **Merger; Headings**

The parties agree that this Lease is the final written understanding of their agreement with regard to this Lease and supersedes all prior oral or written agreements or understandings, including, without limitation, any prior letter(s) of intent. All headings and captions used herein are for convenience of reference and shall be ignored in the interpretation of the provisions hereof.

Section 17.22 **No Other Representations**

Lessee acknowledges that neither Lessor nor any of its employees or agents, nor any broker, agent or any other person or entity representing or purporting to represent Lessor, has made any representation or warranty with respect to the Premises or the Building, or with respect to the suitability of any part of the Building for the conduct of Lessee's business, except as otherwise expressly provided in this Lease.

Section 17.23 **No Partnership or Joint Venture**

Lessor shall not, by virtue of the execution of this Lease or the leasing of the Premises to Lessee, become or be deemed to be a partner of or joint venturer with Lessee in the conduct of Lessee's business on the Premises or otherwise.

Section 17.24 **Lessor's Consent**

In the event Lessor fails to consent to a request of Lessee and Lessor's failure to consent is determined by a court of competent jurisdiction to be unreasonable, Lessee's remedy is limited to specific performance requiring Lessor's consent. Lessee shall not be entitled to recover monetary damages from Lessor based on Lessor's failure to reasonably consent.

Section 17.25 **Joint and Several Liability**

All parties signing this Lease as Lessee shall be jointly and severally liable for all obligations of Lessee under this Lease.

Section 17.26 **Waiver of Trial by Jury**

LESSOR AND LESSEE, TO THE FULLEST EXTENT THAT THEY MAY LAWFULLY DO SO, HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY ANY PARTY TO THIS LEASE WITH RESPECT TO THIS LEASE, THE PREMISES, OR ANY OTHER MATTER RELATED TO THIS LEASE OR THE PREMISES.

Section 17.27 **Essential Term**

The parties agree and acknowledge that it is an essential term of this Lease that Lessor's Work be completed in a timely manner and in conformity with all plans and specifications therefor, as agreed to by Lessee. The parties further agree that it is an essential term of this Lease that all amounts of the Lessee Improvement Allowance be available for timely completion of the Lessee Improvements.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed as of the day and year first above written.

LESSOR:

REGIONAL ONE RH MOB 1 SPE, LLC

a Delaware limited liability company

By: _____

Name: SCOTT HONAN

Title: PRESIDENT

LESSEE:

SHELBY COUNTY HEALTH CARE CORPORATION

a Tennessee nonprofit corporation

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed as of the day and year first above written.

LESSOR:

REGIONAL ONE RH MOB 1 SPE, LLC

a Delaware limited liability company

By: _____

Name: _____

Title: _____

LESSEE:

SHELBY COUNTY HEALTH CARE CORPORATION

a Tennessee nonprofit corporation

By: _____

Name: Reginald W Cogwood, M.D.

Title: President / CEO

By: _____

Name: J. Richard Wagers Jr.

Title: EVP & CFO

EXHIBIT A

PREMISES

The Premises shall contain [redacted] rentable square feet, located in the Quince Building at 6555 Quince Road, Memphis, Tennessee 38119.

[A sketch of the Premises (by Phase) showing its location in the Building is provided below.]

EXHIBIT B

WORK LETTER

[to be completed]

Lessor and Lessee acknowledge and confirm that they shall, acting reasonably, diligently and in good faith, agree upon the Work Letter on or before _____, 2014, and upon such agreement, the Work Letter shall be attached to this Lease as Exhibit B.

EXHIBIT C

RULES AND REGULATIONS

1. The sidewalks and public portions of the Building and Common Areas shall not be obstructed or encumbered by Lessee or its employees, agents, invitees, or guests nor shall they be used for any purpose other than ingress and egress.

2. No curtains, blinds, shades, louvered openings, or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises, without the prior written consent of Lessor, which consent may be arbitrarily withheld by Lessor. No aerial or antenna shall be erected on the roof or exterior walls of the Premises or on the Building and Common Areas without the prior written consent of Lessor, which consent may be arbitrarily withheld.

3. The plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown in them.

4. No bicycles, motorcycles, motorized vehicles or animals of any kind (except dogs assisting disabled persons) shall be brought on the Premises or Building and Common Areas.

5. No cooking shall be done or permitted by Lessee on the Premises. Conventional coffee-makers, microwave ovens and vending machines may be installed exclusively for the use of Lessee, its employees and guests. Lessee shall not cause or permit any unusual or objectionable odors to be produced on or permeate from the Premises.

6. Lessee shall not make or permit to be made any unseemly or disturbing noises or disturb or interfere with occupants of the Building and Common Areas or neighboring premises or those having business with them.

7. Neither Lessee nor any of Lessee's employees, agents, invitees, or guests shall at any time bring or keep on the Premises any inflammable, combustible, or explosive substance or any chemical substance, other than reasonable amounts of cleaning fluids and solvents required in the normal operation of Lessee's business, all of which shall only be used in strict compliance with all applicable Environmental Laws.

8. Lessor shall have a valid pass key to all spaces within the Premises at all times during the Lease Term. No additional locks or bolts of any kind shall be placed on any of the doors or windows by Lessee, nor shall any changes be made in existing locks or the mechanism of the locks, without the prior written consent of the Lessor and unless and until a duplicate key is delivered to Lessor. Lessee must, on the termination of its tenancy, return to Lessor all keys to stores, offices, and toilet rooms.

9. All deliveries, removals, or the carrying in or out of any safes, freights, furniture, or bulky matter of any description may be accomplished only in accordance with Lessor's approved procedures and then only in and through approved areas, during approved hours. If any items will exceed

the designed floor load capacity of the Premises, Lessee may not install such items unless Lessee installs structural reinforcement, at Lessee's expense, as directed by Lessor.

10. Lessee shall not create or use any advertising mentioning or exhibiting any likeness of the Building and Common Areas without the prior written consent of Lessor.

11. Lessor reserves the right to exclude from the Building and Common Areas at all times other than normal business hours all persons who do not present a pass to the Building and Common Areas on a form or card approved by Lessor.

12. The Premises shall not be used for lodging or sleeping.

13. Canvassing, soliciting, and peddling within the Building and Common Areas or in the Common Areas is prohibited.

14. There shall not be used in any space, or in the public halls of the Building and Common Areas, either by Lessee or by jobbers or others, in the delivery or receipt of merchandise to Lessee, any hand trucks, except those equipped with rubber tires and side guards. No hand trucks shall be used in elevators other than those designated by Lessor as service elevators. All deliveries shall be confined to the service areas and through the approved service entries.

15. In order to obtain maximum effectiveness of the cooling system, Lessee shall lower and/or close venetian or vertical blinds or drapes when the sun's rays fall directly on the exterior windows of the Premises.

16. Lessee, its employees, agents, contractors, and invitees shall not be permitted to occupy at any one time more than the number of parking spaces in the Parking Areas permitted in the Lease. Usage of parking spaces shall be in common with all other tenants of the Building and Common Areas and their employees, agents, contractors, and invitees. All parking space usage shall be subject to any reasonable rules and regulations for the safe and proper use of parking spaces that Lessor may prescribe. Lessee's employees, agents, contractors, and invitees shall abide by all posted roadway signs in and about the parking facilities. Lessor shall have the right to tow or otherwise remove vehicles of Lessee and its employees, agents, contractors, or invitees that are improperly parked, blocking ingress or egress lanes, or violating parking rules, at the expense of Lessee or the owner of the vehicle, or both, and without liability to Lessor. Upon request by Lessor, Lessee shall furnish Lessor with the license numbers and descriptions of any vehicles of Lessee, its principals, employees, agents, and contractors.

17. Parking spaces may be used for the parking of passenger vehicles only. Overnight parking in the Parking Areas is prohibited. Lessor, in Lessor's sole and absolute discretion, may establish from time to time a parking decal or pass card system, security check-in, or other reasonable mechanism to restrict parking in the Parking Areas. All trucks and delivery vans shall be parked in designated areas only and not parked in spaces reserved for cars. All loading and unloading of goods shall be done only at the times, in the areas, and through the entrances designated for loading purposes by Lessor.

18. Lessee shall be responsible for the removal and proper disposition of all crates, oversized trash, boxes, and other similar items other than customary trash generated by general office use.

19. Lessor shall not be responsible for lost or stolen personal property, equipment, or money occurring within the Premises or Building and Common Areas, regardless of how or when the loss occurs.

20. Neither Lessee, nor its employees, agents, invitees, or guests, shall paint or decorate the Premises, or mark, paint, or cut into, drive nails or screw into nor in any way deface any part of the Premises or Building and Common Areas without the prior written consent of Lessor.

21. Lessee shall not install, operate, or maintain in the Premises or in any other area of the Building and Common Areas, any electrical equipment that does not bear the U/L (Underwriters Laboratories) seal of approval, or that would overload the electrical system or any part of the system beyond its capacity for proper, efficient, and safe operation as determined by Lessor. Lessee shall not furnish any cooling or heating to the Premises, including the use of any electronic or gas heating devices, without Lessor's prior written consent.

22. The Building and Common Areas is deemed to be a "no smoking" area and smoking is prohibited throughout all interior portions of the Building and Common Areas. In the exterior Common Areas, individuals may smoke only in designated areas and will place all cigarette butts in designated receptacles.

23. Lessee shall not allow the Premises to be occupied by more than five persons per 1,000 square feet of rentable area.

24. Lessee will take all steps necessary to prevent: inadequate ventilation, emission of chemical contaminants from indoor or outdoor sources, or both, or emission of biological contaminants. Lessee will not allow any unsafe levels of chemical or biological contaminants (including volatile organic compounds) in the Premises, and will take all steps necessary to prevent the release of contaminants from adhesives (for example, upholstery, wallpaper, carpet, machinery, supplies, and cleaning agents).

25. Lessee shall comply with any recycling programs for the Building and Common Areas implemented by Lessor from time to time.

26. Lessor has the right during periods of civil unrest to close and lock the Building exterior doors for the safety of the Building and occupants. This decision will be solely the option of Lessor, and Lessor shall not be liable for any omission or commission in implementing this procedure.

27. Lessee shall cooperate fully with the life-safety plans of the Building established and administered by Lessor, including participation by Lessee in exit drills, fire inspections, life-safety orientations.

28. Whenever these Rules and Regulations directly conflict with any of the rights or obligations of Lessee under this Lease, this Lease shall govern. These Rules and Regulations may be reasonably modified by Lessor from time to time. Lessor may waive any of the Rules and Regulations, in writing, but any such waiver shall apply only to the extent set forth in any such written waiver.

SCHEDULE 4.09

MASTER LEASE EXPENSE RECOVERY PAYMENT SCHEDULE

No.	MLER Payment Amount		MLER Pmt Date
1	50,000.00		March 7, 2014
2	60,416.67		April 1, 2014
3	60,416.67		May 1, 2014
4	60,416.67		June 1, 2014
5	60,416.67		July 1, 2014
6	60,416.67		August 1, 2014
7	60,416.67		September 1, 2014
8	60,416.67		October 1, 2014
9	60,416.67		November 1, 2014
10	60,416.67		December 1, 2014
11	60,416.67		January 1, 2015
12	60,416.67		February 1, 2015
13	60,416.67		March 1, 2015
14	52,083.33		April 1, 2015
15	52,083.33		May 1, 2015
16	52,083.33		June 1, 2015
17	52,083.33		July 1, 2015
18	52,083.33		August 1, 2015
19	52,083.33		September 1, 2015
20	52,083.33		October 1, 2015
21	52,083.33		November 1, 2015
22	52,083.33		December 1, 2015
23	52,083.33		January 1, 2016
24	52,083.33		February 1, 2016
25	52,083.33		March 1, 2016
26	38,750.00		April 1, 2016
27	38,750.00		May 1, 2016
28	38,750.00		June 1, 2016
29	38,750.00		July 1, 2016
30	38,750.00		August 1, 2016
31	38,750.00		September 1, 2016
32	38,750.00		October 1, 2016
33	38,750.00		November 1, 2016
34	38,750.00		December 1, 2016
35	38,750.00		January 1, 2017

36	38,750.00		February 1, 2017
37	38,750.00		March 1, 2017
38	34,583.33		April 1, 2017
39	34,583.33		May 1, 2017
40	34,583.33		June 1, 2017
41	34,583.33		July 1, 2017
42	34,583.33		August 1, 2017
43	34,583.33		September 1, 2017
44	34,583.33		October 1, 2017
45	34,583.33		November 1, 2017
46	34,583.33		December 1, 2017
47	34,583.33		January 1, 2018
48	34,583.33		February 1, 2018
49	34,583.33		March 1, 2018
50	21,666.67		April 1, 2018
51	21,666.67		May 1, 2018
52	21,666.67		June 1, 2018
53	21,666.67		July 1, 2018
54	21,666.67		August 1, 2018
55	21,666.67		September 1, 2018
56	21,666.67		October 1, 2018
57	21,666.67		November 1, 2018
58	21,666.67		December 1, 2018
59	21,666.67		January 1, 2019
60	21,666.67		February 1, 2019
61	21,666.67		March 1, 2019
	$2,540,000.00		

Attachment A.6.1

OPTION TO SUBLEASE

For and in consideration of $1.00, cash in hand paid, the receipt of which is hereby acknowledged, and other good and valuable consideration, Shelby County Health Care Corporation, d/b/a Regional One Health ("ROH") hereby bargains, sells and grants to Regional One Health Imaging, LLC ("ROI"), its successors and assigns, the right and option to sublease up to 6,000 square feet of space for the establishment and operation of an Outpatient Diagnostic Center ("ODC") on the first (1st) floor of 6555 Quince Road, Memphis, TN (the "Premises"), which is a portion of the 35,000 square feet of space under lease by ROH from Regional One RH MOB 1 SPE, LLC (the "Lease").

The terms and conditions of the sublease to be executed by and between ROI and ROH (the "Sublease") shall be in accordance with the terms and conditions set forth in this option, and shall also provide for such other terms and conditions as are contained in the Lease and subleases of the same nature and as mutually agreed upon between the parties. In simplest terms, the term of the initial sublease shall be eleven (11) years, and the initial base rent amount shall be Twenty-four Dollars ($24.00) per square foot. If there is any conflict between the provisions of this Option to Sublease and the Sublease, the provisions of the Sublease shall prevail. ROI must provide notice to ROH of its intention to exercise this Option, as provided below.

It is anticipated that the Sublease, when executed, shall upon commencement be for the remaining initial term of the Lease at a cost to ROI equal to the lease cost to ROH on a per square footage basis (with an initial annual base rent of $24.00 per square foot), and such Sublease shall be executed not later than sixty (60) days after ROI receives approval of a Certificate of Need from the Tennessee Health Services and Development Agency for its ODC to be operated from the Premises. If ROI does not file a Certificate of Need within ninety (90) days of execution of this Option to Sublease, this Option to Sublease shall terminate and be of no further force and effect. If ROI's Certificate of Need application is petitioned for a Contested Case Hearing, this Option to Lease shall continue in effect until ten (10) days following any favorable final decision on the Contested Case Hearing. If the parties fail to reach agreement as to the terms and conditions of a Sublease within thirty (30) days after ROI gives notice of its intent to exercise its Option to Sublease, then this Option shall terminate and be of no further force and effect.

The provisions of this Option shall be binding upon and inure to the benefit of both parties and their respective successors and assigns.

This Option shall be construed in accordance with and governed by the laws of the State of Tennessee. Time is expressly declared to be of the essence of this Option.

[Signature page follows.]

IN WITNESS WHEREOF, the parties have signed this option on this 12th day of June, 2014.

SHELBY COUNTY HEALTH CARE CORPORATION

BY: _____
REGINALD W. COOPWOOD, M.D., PRESIDENT/CEO

BY: Richard Wagers Jr
J. RICHARD WAGERS, SEVP/ CHIEF FINANCIAL OFFICER

REGIONAL ONE HEALTH IMAGING, LLC

BY: _____
REGINALD W. COOPWOOD, M.D., PRESIDENT/CEO

Attachment A.6.2

June 11, 2014

Shelby County Health Care Corporation
877 Jefferson Avenue
Memphis, Tennessee 38103
Attn: J. Richard Wagers, Jr.

Re: Sublease of Space, 6555 Quince Road, Memphis, Tennessee

Dear Rick:

Section 6 of the March 7, 2014 Lease Agreement entered into by and between Regional One RH MOB 1 SPE, LLC ("Lessor") and Shelby County Health Care Corporation ("Lessee"), indicates that Lessor must approve any sublease of space by Lessee.

We understand that Lessee currently intends to sublease space to Regional One Imaging, LLC, a wholly owned subsidiary and may sublease space in the future to other subsidiaries in which it holds a majority ownership interest of 51% or greater (collectively "Controlled Subsidiaries").

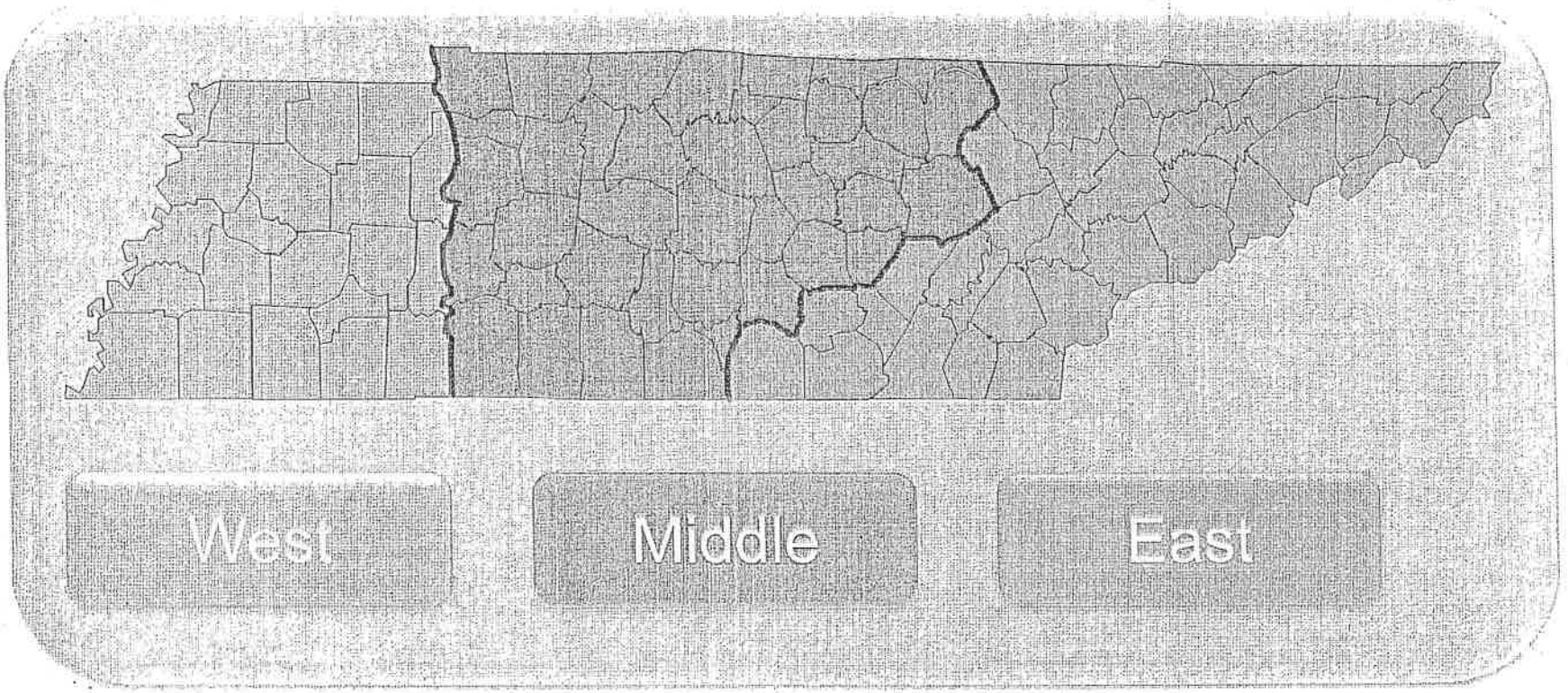
As such and as may be the case in the future, this letter grants permission of Lessor to the Lessee to sublease space at the discretion of Lessee to any of its Controlled Subsidiaries.

Sincerely,

(title)
Regional One RH MOB 1 SPE, LLC
6555 Quince Road
Memphis, Tennessee 38114

Cc: Monica N. Wharton, Esq.

Grand Regions by MCO



TennCare

Attachment A.13

Grand Regions by MCO

West Tennessee	*Counties*
UHC Community Plan	Benton, Carroll, Chester, Crockett, Decatur, Dyer, Fayette, Gibson, Hardeman, Hardin, Haywood, Henderson, Henry, Lake, Lauderdale, Madison, McNairy, Obion, Shelby, Tipton, Weakley
BlueCare	
TennCare Select	

Middle Tennessee	*Counties*
UHC Community Plan	Bedford, Cannon, Cheatham, Clay, Coffee, Cumberland, Davidson, DeKalb, Dickson, Fentress, Giles, Hickman, Houston, Humphreys, Jackson, Lawrence, Lewis, Lincoln, Macon, Marshall, Maury, Montgomery, Moore, Overton, Perry, Pickett, Putnam, Robertson, Rutherford, Smith, Stewart, Sumner, Trousdale, Van Buren, Warren, Wayne, White, Williamson, Wilson
AmeriGroup	
TennCare Select	

East Tennessee	*Counties*
UHC Community Plan	Anderson, Bledsoe, Blount, Bradley, Campbell, Carter, Claiborne, Cocke, Franklin, Grainger, Greene, Grundy, Hamblen, Hamilton, Hancock, Hawkins, Jefferson, Johnson, Knox, Loudon, Marion, McMinn, Meigs, Monroe, Morgan, Polk, Rhea, Roane, Scott, Sequatchie, Sevier, Sullivan, Unicoi, Union, Washington
BlueCare	
TennCare Select	

TENNCARE

Attachment B.II.A.1

Utilization of MRI's in the Service Area

	2010	2011	2012	# Units 2012	% Change
BMH Collierville	1,941	1,891	1,734	1	-10.66%
BMH Memphis	11,517	12,052	11,913	3	3.44%
Baptist Rehab - Germantown	1,702	1,622	1,596	1	-6.23%
Baptist Rehab - Briarcrest	370	585	650	1	75.68%
Campbell Clinic - Union	64	2,290	2,155	1	3267.19%
Campbell Clinic	8,081	6,502	6,321	1	-21.78%
Delta Medical Cntr	880	1,006	787	1	-10.57%
Diagnostic Imaging	4,540	6,358	6,538	1	44.01%
LeBonheur	3,856	4,663	5,357	3	38.93%
Methodist Germantown	8,313	7,698	6,557	2	-21.12%
Methodist North	3,536	4,073	4,139	1	17.05%
Methodist South	6,359	6,058	6,092	2	-4.20%
Methodist University	9,136	9,677	9,803	3	7.30%
MSK Covington Pike	3,420	3,096	3,140	1	-8.19%
MSK Briarcrest	4,043	4,508	4,489	1	11.03%
Neurology Clinic	3,370	3,168	3,160	1	-6.23%
Outpatient Diagnostic Memph	2,389	2,207	2,214	1	-7.33%
Park Ave. Diagnostic	3,857	3,080	2,681	2	-30.49%
Regional One	3,733	3,927	4,491	1	20.31%
Semmes Murphey Clinic	7,327	7,300	6,490	2	-11.42%
St. Francis	6,159	5,482	5,393	3	-12.44%
St. Francis - Bartlett	3,030	3,257	3,642	2	20.20%
St. Jude	9,467	10,031	6,241	4	-34.08%
Wesley Neurology Clinic	1,393	1,398	1,309	1	-6.03%
West Clinic, P.C.	1,304	1,662	1,564	1	19.94%
Total	109,787	113,591	108,456	41	-1.21%

Source: HSDA, Medical Euipment, MRI - Utilizations 2010-2013

Utilization of CT's in the Service Area

	2010	2011	2012	# Units 2012	% Change
BMH Collierville	12,381	11,277	8,843	1	-28.58%
BMH Memphis	50,351	51,644	48,898	6	-2.89%
BMH for Women	572	622	479	1	-16.26%
BMH - Bartlett	3,081	2,151			N/A
BMH - Germantown	1,669	641			N/A
Baptist Rehab - Germantown	695	749	565	1	-18.71%
Bowden, Phillip M.D.	2,093	611	659	1	-68.51%
Conrad Pearson	7,466	4,113	3,678	1	-50.74%
Delta Medical Cntr	4,694	4,389	3,921	1	-16.47%
Diagnostic Imaging	3,217	3,592	3,542	1	10.10%
East Memphis PET	96				N/A
Gastro One	3,198	1,563	1,571	1	-50.88%
ImagDent of Memphis	268	533	457	1	70.52%
LeBonheur	7,124	6,993	6,866	2	-3.62%
Methodist Germantown	29,484	24,728	26,486	3	-10.17%
Methodist North	30,002	23,985	24,625	3	-17.92%
Methodist South	22,045	17,181	16,958	2	-23.08%
Methodist University	37,673	34,418	35,418	5	-5.99%
Neurology Clinic	383	290	342	1	-10.70%
Park Ave. Diagnostic	2,195	1,374	1,188	1	-45.88%
Regional One	150,144	46,236	42,518	3	-71.68%
Semmes Murphey Clinic	2,046	1,845	1,845	1	-9.82%
St. Francis	21,131	15,987	1,682	4	-92.04%
St. Francis - Bartlett	15,830	13,922	15,712	2	-0.75%
St. Jude	6,023	4,679	2,863	1	-52.47%
West Clinic	2,752	1,314	3,294	1	19.69%
West Clinic, P.C.	16,122	18,464	14,516	2	-9.96%
Total	432,735	293,301	266,926	46	-38.32%

Source: HSDA, Medical Euipment, Computed Tomography Scanners - Utilization 2010-2013

Top 10 CPT Codes for Regional One Health for MR and CT including the charge rate difference with Landman Imaging Charges

CODE	DESCRIPTION	MODALITY	REGIONAL ONE HEALTH DEPARTMENT CHARGE	REGIONAL ONE HEALTH IMAGING CHARGE	DIFFERENCE $ INCREASE / (DECREASE)	% INCREASE / (DECREASE)
74177	COMBO CT (ABD, PELVIS W/)	CT	$ 4,893	$ 1,051	$ (3,842)	-79%
74176	COMBO CT (ABD, PELVIS W/O)	CT	$ 3,727	$ 267	$ (3,460)	-93%
74160	CT ABDOMEN W/	CT	$ 2,445	$ 1,035	$ (1,410)	-58%
74170	CT ABDOMEN W/O & W/	CT	$ 2,643	$ 1,366	$ (1,277)	-48%
70450	CT HEAD W/O	CT	$ 1,567	$ 133	$ (1,434)	-92%
70488	CT MAXILLOFACIAL W/O & W/	CT	$ 2,504	$ 1,190	$ (1,314)	-52%
72193	CT PELVIS W/	CT	$ 2,448	$ 912	$ (1,536)	-63%
72192	CT PELVIS W/O	CT	$ 2,071	$ 754	$ (1,317)	-64%
72125	CT SPINE CERVICAL W/O	CT	$ 2,099	$ 781	$ (1,318)	-63%
71260	CT THORAX W/	CT	$ 2,438	$ 964	$ (1,474)	-60%
70547	MRA NECK W/O	MRI	$ 2,937	$ 1,170	$ (1,767)	-60%
70553	MRI BRAIN W/O & W/	MRI	$ 4,006	$ 2,244	$ (1,762)	-44%
73721LT	MRI JOINT LOWER,LT,W/O	MRI	$ 3,042	$ 1,536	$ (1,506)	-50%
73721RT	MRI JOINT LOWER,RT,W/O	MRI	$ 3,042	$ 1,536	$ (1,506)	-50%
73221RT	MRI JOINT UPPER,RT,W/O	MRI	$ 2,964	$ 1,536	$ (1,428)	-48%
72197	MRI PELVIS W/O & W/	MRI	$ 4,000	$ 2,297	$ (1,703)	-43%
72141	MRI SPINE CERVICAL W/O	MRI	$ 2,944	$ 1,445	$ (1,499)	-51%
72148	MRI SPINE LUMBAR SPINE W/O	MRI	$ 2,944	$ 1,445	$ (1,499)	-51%
72158	MRI SPINE LUMBAR SPINE W/O & W	MRI	$ 4,000	$ 2,208	$ (1,792)	-45%
72146	MRI SPINE THORACIC W/O	MRI	$ 2,941	$ 1,465	$ (1,476)	-50%

NOTES: 1.) These CPT Codes represent the10 highest volume CPT codes used at Regional One Health for MR and CT Only
2.) The Charge Amounts and the Allowed Amounts are restricted to Medicare Financial Class only.

Attachment B.II.A.3

K091536

JUL 17 2009

GE Healthcare

3200 N. Grandview Blvd.
Waukesha, WI 53188
USA

Section 5 – 510(k) Summary

This 510(k) summary of safety and effectiveness information is submitted in accordance with the requirements of 21 CFR Part 807.92(c).

Submitter: GE Healthcare
3200 N. Grandview Blvd.
Waukesha, WI 53188

Contact Person: Mark Stauffer
Regulatory Affairs Leader

Telephone: 262 – 521 – 6891
Fax: 262 – 521 - 6439
Email: mark.x.stauffer@ge.com

Date Prepared: 15 May 2009

Device Name:

Proprietary Name: Optima MR450w
Classification Name: Magnetic Resonance Diagnostic System, 21 CFR 892.1000, 90-LNH

Predicate Device:
GE Discovery® MR450 System (K083147)

Device Description:

The 1.5T GE Optima MR450w features a superconducting magnet operating at 1.5 Tesla. The data acquisition system accommodates up to 32 independent receive channels in various increments, and multiple independent coil elements per channel during a single acquisition series. The system uses a combination of time-varying magnetic fields (gradients) and RF transmissions to obtain information regarding the density and position of elements exhibiting magnetic resonance. The system can image in the sagittal, coronal, axial, oblique and double oblique planes, using various pulse sequences and reconstruction algorithms.. The 1.5T GE Optima MR450w is designed to conform to NEMA DICOM standards (Digital Imaging and Communications in Medicine).

Indications for Use:

The Optima MR450w is a whole body magnetic resonance scanner designed to support high resolution and high signal-to-noise ratio images in short exam times. It is indicated for use as a diagnostic imaging device to produce axial, sagittal, coronal, and oblique anatomical images, spectroscopic data, parametric maps, , or dynamic images of the structures or functions of the entire body. The indication for use includes, but is not limited to, head, neck, TMJ, spine, breast, heart, abdomen, pelvis, joints, prostate, blood vessels, and musculoskeletal regions of the body. Depending on the region of interest being imaged, contrast agents may be used.

The images produced by the Optima MR450w reflect the spatial distribution or molecular environment of nuclei exhibiting magnetic resonance. These images and spectra, when interpreted by a trained physician yield information that may assist in diagnosis.

Comparison with Predicate Devices:

The indications for use for the Optima MR450w System are similar to those for the GE Discovery® MR450 System.

Comparison statement between Optima MR450w and Discovery MR450 System :

The GE Optima MR450w is a new device design that is similar to the previously cleared 1.5T HDx MR system (K052293) with the main difference being the static magnet physical dimensions, which reflect the design objective of creating a larger diameter patient enclosure (bore). Both systems utilize superconducting magnets, gradients, and radio frequency coils and electronics to acquire data in single voxel, two-dimensional, or three-dimensional datasets. The operating software is common to both systems, as are the user applications provided with the system or offered as options.

Summary of Studies:

As stated in the FDA document "Guidance for the Submission of Premarket Notifications for Magnetic Resonance Diagnostic Devices" the following parameters have been measured

and documented through testing to NEMA, IEC or ISO standards (as referenced throughout this submission and listed in Section 9:

Performance:

Signal-to-noise ratio (SNR)
Geometric distortion
Image uniformity
Slice thickness
Spatial resolution

Safety

Static field strength
Acoustic noise
dB/dt
RF heating (SAR)
Biocompatibility

The Optima MR450w has been designed to comply with applicable IEC standards. It shall be certified by a Nationally Recognized Testing Laboratory to conform to IEC, UL and CSA standards prior to commercialization of the system.

Conclusion:

It is the opinion of GE that the GE Optima MR450w 1.5T system is substantially equivalent to the Discovery MR450 1.5T system.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Food and Drug Administration
9200 Corporate Boulevard
Rockville MD 20850

GE Medical Systems LLC
% Mr. Daniel W. Lehtonen
Senior Staff Engineer-Medical Devices
Intertek Testing Services NA, Inc.
2307 E. Aurora Rd., Unit B7
TWINSBURG OH 44087

JUL 17 2009

Re: K091536
Trade/Device Name: Optima MR 450w
Regulation Number: 21 CFR 892.1000
Regulation Name: Magnetic resonance diagnostic device
Regulatory Class: II
Product Code: LNH
Dated: July 2, 2009
Received: July 6, 2009

Dear Mr. Lehtonen:

We have reviewed your Section 510(k) premarket notification of intent to market the device referenced above and have determined the device is substantially equivalent (for the indications for use stated in the enclosure) to legally marketed predicate devices marketed in interstate commerce prior to May 28, 1976, the enactment date of the Medical Device Amendments, or to devices that have been reclassified in accordance with the provisions of the Federal Food, Drug, and Cosmetic Act (Act) that do not require approval of a premarket approval application (PMA). You may, therefore, market the device, subject to the general controls provisions of the Act. The general controls provisions of the Act include requirements for annual registration, listing of devices, good manufacturing practice, labeling, and prohibitions against misbranding and adulteration.

If your device is classified (see above) into either class II (Special Controls) or class III (PMA), it may be subject to additional controls. Existing major regulations affecting your device can be found in the Code of Federal Regulations, Title 21, Parts 800 to 898. In addition, FDA may publish further announcements concerning your device in the Federal Register.

Please be advised that FDA's issuance of a substantial equivalence determination does not mean that FDA has made a determination that your device complies with other requirements of the Act or any Federal statutes and regulations administered by other Federal agencies. You must comply with all the Act's requirements, including, but not limited to: registration and listing (21 CFR Part 807); labeling (21 CFR Part 801); medical device reporting (reporting of medical

device-related adverse events) (21 CFR 803); good manufacturing practice requirements as set forth in the quality systems (QS) regulation (21 CFR Part 820); and if applicable, the electronic product radiation control provisions (Sections 531-542 of the Act); 21 CFR 1000-1050.

If you desire specific advice for your device on our labeling regulation (21 CFR Part 801), please go to http://www.fda.gov/AboutFDA/CentersOffices/CDRH/CDRHOffices/ucm115809.htm for the Center for Devices and Radiological Health's (CDRH's) Office of Compliance. Also, please note the regulation entitled, "Misbranding by reference to premarket notification" (21CFR Part 807.97). For questions regarding the reporting of adverse events under the MDR regulation (21 CFR Part 803), please go to http://www.fda.gov/cdrh/mdr/ for the CDRH's Office of Surveillance and Biometrics/Division of Postmarket Surveillance.

You may obtain other general information on your responsibilities under the Act from the Division of Small Manufacturers, International and Consumer Assistance at its toll-free number (800) 638-2041 or (240) 276-3150 or at its Internet address http://www.fda.gov/cdrh/industry/support/index.html.

Sincerely yours,

Janine M. Morris
Acting Director, Division of Reproductive, Abdominal, and Radiological Devices
Office of Device Evaluation
Center for Devices and Radiological Health

Enclosure

Indications for Use

510(k) Number (if known): K091536

Device Name: Optima MR450w

Indications for Use:

The Optima MR450w is a whole body magnetic resonance scanner designed to support high resolution and high signal-to-noise ratio images in short exam times. It is indicated for use as a diagnostic imaging device to produce axial, sagittal, coronal, and oblique anatomical images, spectroscopic data, parametric maps, or dynamic images of the structures or functions of the entire body. The indication for use includes, but is not limited to, head, neck, TMJ, spine, breast, heart, abdomen, pelvis, joints, prostate, blood vessels, and musculoskeletal regions of the body. Depending on the region of interest being imaged, contrast agents may be used.

The images produced by the Optima MR450w reflect the spatial distribution or molecular environment of nuclei exhibiting magnetic resonance. These images and spectra, when interpreted by a trained physician yield information that may assist in diagnosis.

Prescription Use X **AND/OR** **Over-the-Counter Use** _____
(21 CFR 801 Subpart D) (21 CFR 807 Subpart C)

(PLEASE DO NOT WRITE BELOW THIS LINE - CONTINUE ON ANOTHER PAGE IF NEEDED)

Concurrence of CDRH, Office of Device Evaluation (ODE)

(Division Sign-Off)
Division of Reproductive, Abdominal and Radiological Devices
510(k) Number K091536

GE Capital
Healthcare Financial Services

June 12, 2014

Dr. Jeff Landman
Regional One Health
6555 Quince Road
Memphis, TN 38119

Dear Dr. Landman:

GE Healthcare Financial Services, a component of General Electric Capital Corporation ("GEHFS"), is pleased to submit the following proposal:

Contract Description: True lease of equipment.

Lessor: General Electric Capital Corporation, or one or more of its affiliates and/or assigns.

Lessee: Regional One Health

Equipment Description: GE Healthcare Diagnostic Imaging Equipment

Equipment Cost: $2,115,948.79

Term and Rental Payment Amount:

Product	Price	Term	Monthly Payment
Optima MR 450w	$1,069,686.95	84	$13,100.00
Goldseal Brightspeed Elite 16	$306,350.99	60	$5,000.00
Senographe Care	$280,910.85	60	$4,500.00
Goldseal Precision 500D	$315,000.00	60	$5,100.00
Logiq E9	$144,000.00	36	$3,600.00

Lease Rate on Equipment Cost:

Note: The lease rate and rental payment amounts have been calculated based on the Swap Rate (as defined below) and an assumption that, at the time of funding, the Swap Rate will be 1.80%. GEHFS reserves the right to adjust the lease rate and rental payment amounts if this is not the case, and/or if the lease commences after December 31, 2014, and/or for other changes in market conditions as determined by GEHFS in its sole discretion. As used herein, "Swap Rate" means the interest rate for swaps that most closely approximates the initial term of the lease as published by the Federal Reserve Board in the Federal Reserve Statistical Release H.15 entitled "Selected Interest Rates" currently available online at http://www.federalreserve.gov/releases/h15/update/ or such other nationally recognized reporting source or publication as GEHFS may specify.

End of Lease Options: Lessee shall, at its option, either purchase all (but not less than all) of the Equipment for its then fair market value, plus applicable taxes or return the Equipment to GEHFS.

Advance Rent: $0.00 due with signed contract. In no event shall any advance rent or advance charge or any other rent payments be refunded to Lessee. The Advance Rental will be applied as described in the lease.

Documentation Fee: A documentation fee of $Waived will be charged to Lessee to cover document preparation, document transmittal, credit write-ups, lien searches and lien filing fees. The documentation fee is due upon Lessee's acceptance of this proposal and is non-refundable. This fee is based on execution of our standard documents substantially in the form submitted by us. In the event significant revisions are made to our documents at your request or at the request of your legal counsel or your landlord or mortgagee or their counsel, the documentation fee will be adjusted accordingly to cover our additional costs and expenses.

Interim Rent: If the lease commencement date is not the 1st or 15th of any calendar month (a "Payment Date"), interim rent may be assessed for the period between the lease commencement date and the Payment Date.

Required Credit Information:

1. Two years fiscal year end audited/un-audited financial statements and comparative interim statements; or tax returns and business plan.
2. Such additional information as may be required.

Proposal Expiration: This proposal and all of its terms shall expire on July 12, 2014 if GEHFS has not received Lessee's signed acceptance hereof by such date. Subject to the preceding sentence, this proposal and all of its terms shall expire on September 30, 2014 if the lease has not commenced by such date.

The summary of proposed terms and conditions set forth in this proposal is not intended to be all-inclusive. Any terms and conditions that are not specifically addressed herein would be subject to future negotiations. Moreover, by signing the proposal, the parties acknowledge that: (i) this proposal is not a binding commitment on the part of any person to provide or arrange for financing on the terms and conditions set forth herein or otherwise; (ii) any such commitment on the part of GEHFS would be in a separate written instrument signed by GEHFS following satisfactory completion of GEHFS' due diligence, internal review and approval process (which approvals have not yet been sought or obtained); (iii) this proposal supersedes any and all discussions and understandings, written or oral between or among GEHFS and any other person as to the subject matter hereof; and (iv) GEHFS may, at any level of its approval process, decline any further consideration of the proposed financing and terminate its credit review process. Lessee hereby acknowledges and agrees that GEHFS reserves the right to syndicate (via a referral, an assignment or a participation) all or a portion of the proposed transaction to one or more banks, leasing or finance companies or financial institutions (a "Financing Party"). In the event GEHFS elects to so syndicate all or a portion of the proposed transaction (whether before or after any credit approval of the proposed transaction by GEHFS) and is unable to effect such syndication on terms satisfactory to Lessee and/or GEHFS, GEHFS may, in its discretion, decline to enter into, and/or decline any further consideration of, the proposed financing. Lessee hereby further acknowledges and agrees that, in connection with any such syndication, GEHFS may make available to one or more Financing Parties any and all information provided by or on behalf of Lessee to GEHFS (including, without limitation, any third party credit report(s) provided to or obtained by GEHFS).

Except as required by law, neither this proposal nor its contents will be disclosed publicly or privately except to those individuals who are your officers, employees or advisors who have a need to know as a result of being involved in the proposed transaction and then only on the condition that such matters may not be further disclosed. Nothing herein is to be construed as constituting tax, accounting or legal advice by GEHFS to any person.

You hereby authorize GEHFS to file in any jurisdiction as GEHFS deems necessary any initial Uniform Commercial Code financing statements that identify the Equipment or any other assets subject to the proposed financing described herein. If for any reason the proposed transaction is not approved, upon your satisfaction in full of all obligations to GEHFS, GEHFS will cause the termination of such financing statements. You acknowledge and agree that the execution of this proposal and the filing by GEHFS of such financing statements in no way obligates GEHFS to provide the financing described herein. By signing below, you hereby consent to and authorize GEHFS to perform all background, credit, judgment, lien and other checks and searches as GEHFS deems appropriate in its sole credit judgment.

We look forward to your early review and response. If there are any questions, we would appreciate the opportunity to discuss this proposal in more detail at your earliest convenience. Please do not hesitate to contact me directly at 615-854-3687.

Sincerely yours,

Don Diffendorf

Donald Diffendorf
Vice President
GE Healthcare Financial Services,
a component of General Electric Capital Corporation

Acknowledged and Accepted:

_____
(Legal Name)

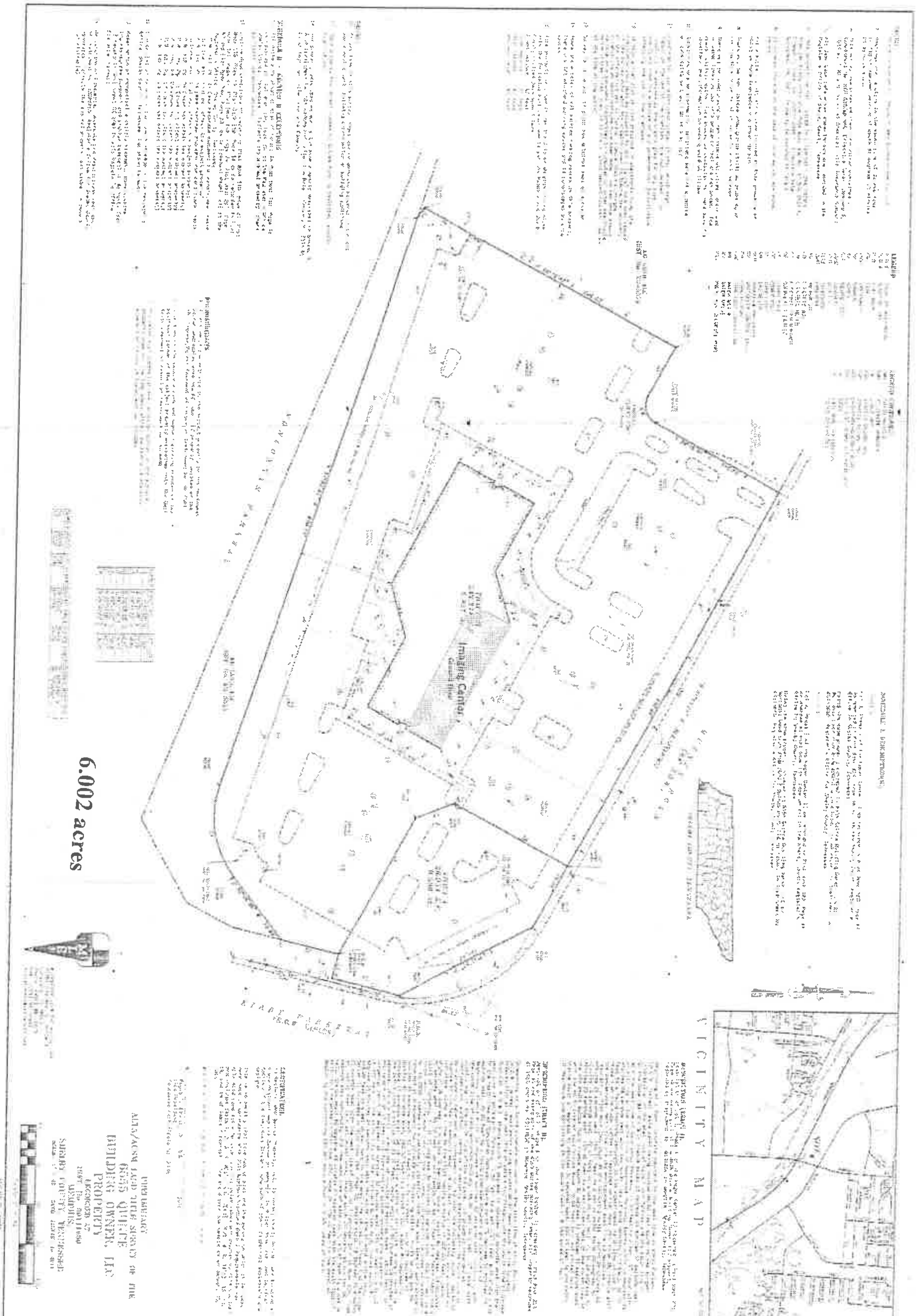
By:_____

Title:_____

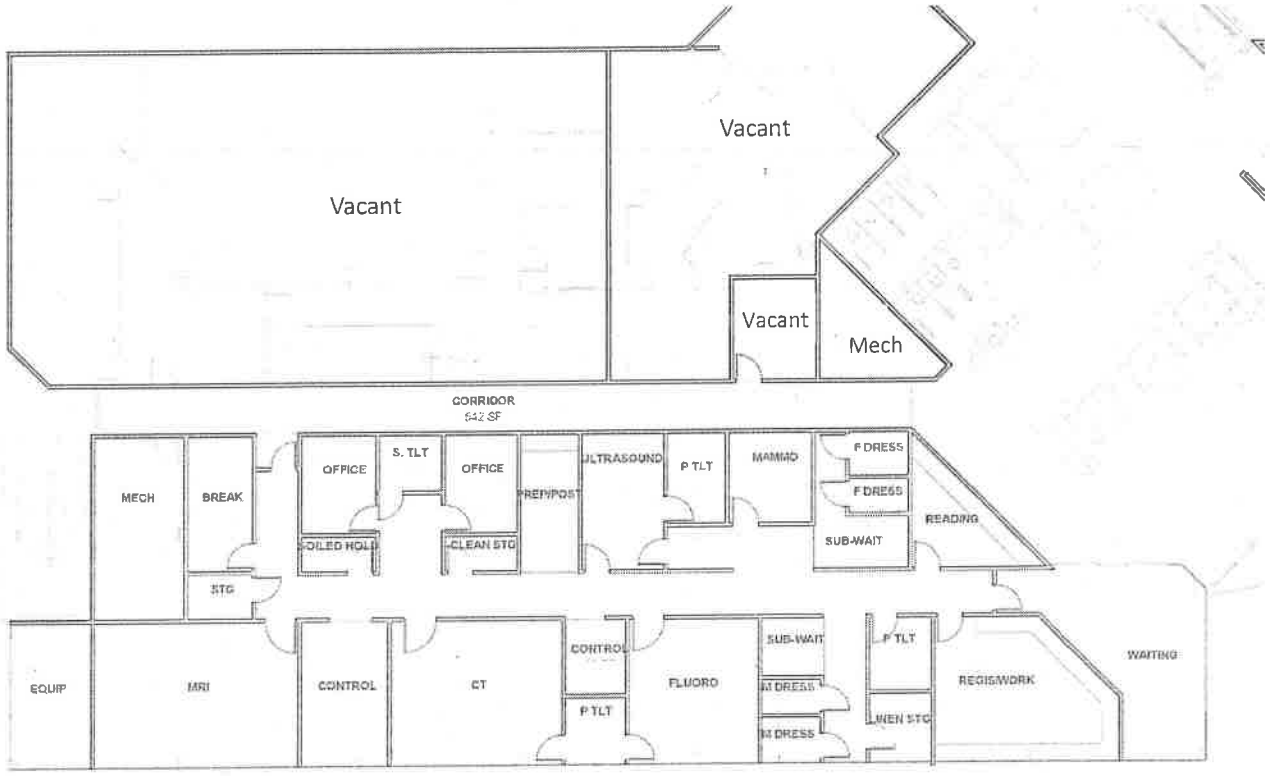
Date:_____

Fed. ID #:_____

Attachment B.III.A



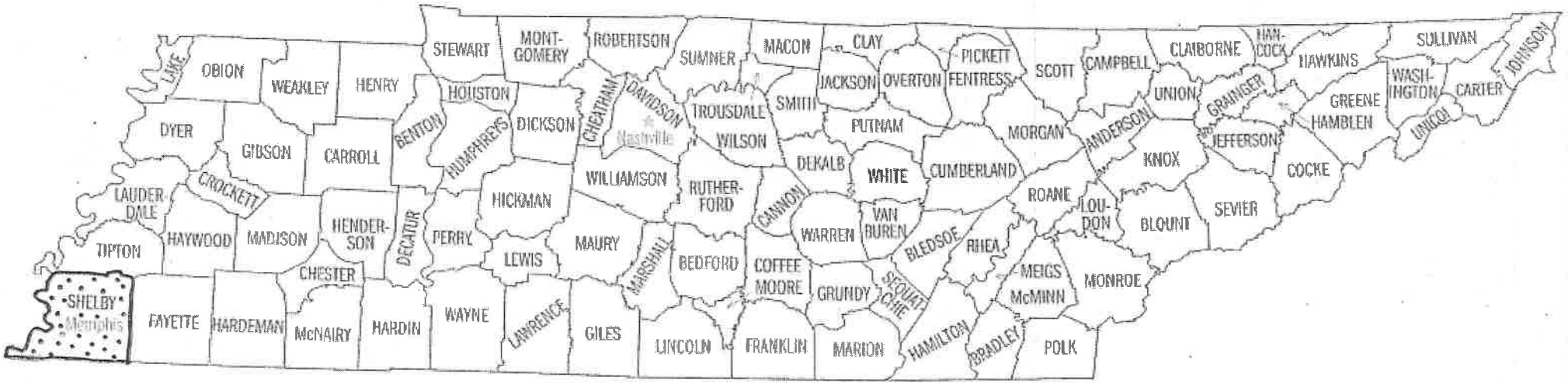
Regional One Health



FIRST FLOOR – ODC

APM
AMERICAN PROGRAM MANAGEMENT

Tennessee County Map



Attachment C.Need.3

Attachment C.Need.4.A

State & County QuickFacts

Shelby County, Tennessee

People QuickFacts	Shelby County	Tennessee
Population, 2011 estimate	935,088	6,403,353
Population, 2010 (April 1) estimates base	927,644	6,346,110
Population, percent change, April 1, 2010 to July 1, 2011	0.8%	0.9%
Population, 2010	927,644	6,346,105
Persons under 5 years, percent, 2011	7.2%	6.3%
Persons under 18 years, percent, 2011	26.1%	23.3%
Persons 65 years and over, percent, 2011	10.4%	13.7%
Female persons, percent, 2011	52.3%	51.3%
White persons, percent, 2011 (a)	43.6%	79.5%
Black persons, percent, 2011 (a)	52.3%	16.9%
American Indian and Alaska Native persons, percent, 2011 (a)	0.4%	0.4%
Asian persons, percent, 2011 (a)	2.4%	1.5%
Native Hawaiian and Other Pacific Islander persons, percent, 2011 (a)	0.1%	0.1%
Persons reporting two or more races, percent, 2011	1.3%	1.6%
Persons of Hispanic or Latino Origin, percent, 2011 (b)	5.8%	4.7%
White persons not Hispanic, percent, 2011	38.6%	75.4%
Living in same house 1 year & over, 2006-2010	81.6%	83.8%
Foreign born persons, percent, 2006-2010	6.0%	4.4%
Language other than English spoken at home, pct age 5+, 2006-2010	8.5%	6.2%
High school graduates, percent of persons age 25+, 2006-2010	84.9%	82.5%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	27.8%	22.7%
Veterans, 2006-2010	62,382	505,746
Mean travel time to work (minutes), workers age 16+, 2006-2010	22.4	23.9
Housing units, 2010	398,274	2,812,133
Homeownership rate, 2006-2010	61.7%	69.6%
Housing units in multi-unit structures, percent, 2006-2010	27.6%	18.1%
Median value of owner-occupied housing units, 2006-2010	$135,300	$134,100
Households, 2006-2010	340,443	2,443,475
Persons per household, 2006-2010	2.65	2.49
Per capita money income in past 12 months (2010 dollars) 2006-2010	$25,002	$23,722
Median household income 2006-2010	$44,705	$43,314
Persons below poverty level, percent, 2006-2010	19.7%	16.5%

Business QuickFacts	Shelby County	Tennessee
Private nonfarm establishments, 2009	20,262	132,901[1]
Private nonfarm employment, 2009	428,357	2,317,986[1]
Private nonfarm employment, percent change 2000-2009	-10.3%	-3.0%[1]
Nonemployer establishments, 2009	70,282	448,516
Total number of firms, 2007	76,350	545,348
Black-owned firms, percent, 2007	30.9%	8.4%
American Indian- and Alaska Native-owned firms, percent, 2007	0.3%	0.5%
Asian-owned firms, percent, 2007	3.4%	2.0%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.7%	1.6%
Women-owned firms, percent, 2007	30.8%	25.9%
Manufacturers shipments, 2007 ($1000)	17,969,681	140,447,760

Merchant wholesaler sales, 2007 ($1000)	29,636,012	80,116,528
Retail sales, 2007 ($1000)	11,932,863	77,547,291
Retail sales per capita, 2007	$12,971	$12,563
Accommodation and food services sales, 2007 ($1000)	1,787,964	10,626,759
Building permits, 2011	1,400	14,977
Federal spending, 2010	10,393,200	68,865,540[1]

Geography QuickFacts	Shelby County	Tennessee
Land area in square miles, 2010	763.17	41,234.90
Persons per square mile, 2010	1,215.5	153.9
FIPS Code	157	47
Metropolitan or Micropolitan Statistical Area	Memphis, TN-MS-AR Metro Area	

1: Includes data not distributed by county.

(a) Includes persons reporting only one race.
(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information
F: Fewer than 100 firms
FN: Footnote on this item for this area in place of data
NA: Not available
S: Suppressed; does not meet publication standards
X: Not applicable
Z: Value greater than zero but less than half unit of measure shown

Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
Last Revised: Thursday, 07-Jun-2012 13:40:15 EDT

State & County QuickFacts

Tennessee

People QuickFacts	Tennessee	USA
Population, 2011 estimate	6,403,353	311,591,917
Population, 2010	6,346,105	308,745,538
Population, percent change, 2000 to 2010	11.5%	9.7%
Population, 2000	5,689,283	281,421,906
Persons under 5 years, percent, 2010	6.4%	6.5%
Persons under 18 years, percent, 2010	23.6%	24.0%
Persons 65 years and over, percent, 2010	13.4%	13.0%
Female persons, percent, 2010	51.3%	50.8%
White persons, percent, 2010 (a)	77.6%	72.4%
Black persons, percent, 2010 (a)	16.7%	12.6%
American Indian and Alaska Native persons, percent, 2010 (a)	0.3%	0.9%
Asian persons, percent, 2010 (a)	1.4%	4.8%
Native Hawaiian and Other Pacific Islander, percent, 2010 (a)	0.1%	0.2%
Persons reporting two or more races, percent, 2010	1.7%	2.9%
Persons of Hispanic or Latino origin, percent, 2010 (b)	4.6%	16.3%
White persons not Hispanic, percent, 2010	75.6%	63.7%
Living in same house 1 year & over, 2006-2010	83.8%	84.2%
Foreign born persons, percent, 2006-2010	4.4%	12.7%
Language other than English spoken at home, pct age 5+, 2006-2010	6.2%	20.1%
High school graduates, percent of persons age 25+, 2006-2010	82.5%	85.0%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	22.7%	27.9%
Veterans, 2006-2010	505,746	22,652,496
Mean travel time to work (minutes), workers age 16+, 2006-2010	23.9	25.2
Housing units, 2010	2,812,133	131,704,730
Homeownership rate, 2006-2010	69.6%	66.6%
Housing units in multi-unit structures, percent, 2006-2010	18.1%	25.9%
Median value of owner-occupied housing units, 2006-2010	$134,100	$188,400
Households, 2006-2010	2,443,475	114,235,996
Persons per household, 2006-2010	2.49	2.59
Per capita money income in past 12 months (2010 dollars) 2006-2010	$23,722	$27,334
Median household income 2006-2010	$43,314	$51,914
Persons below poverty level, percent, 2006-2010	16.5%	13.8%

Business QuickFacts	Tennessee	USA
Private nonfarm establishments, 2009	132,901[1]	7,433,465
Private nonfarm employment, 2009	2,317,986[1]	114,509,626

Private nonfarm employment, percent change 2000-2009	-3.0%[1]	0.4%
Nonemployer establishments, 2009	448,516	21,090,761
Total number of firms, 2007	545,348	27,092,908
Black-owned firms, percent, 2007	8.4%	7.1%
American Indian- and Alaska Native-owned firms, percent, 2007	0.5%	0.9%
Asian-owned firms, percent, 2007	2.0%	5.7%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.6%	8.3%
Women-owned firms, percent, 2007	25.9%	28.8%
Manufacturers shipments, 2007 ($1000)	140,447,760	5,338,306,501
Merchant wholesaler sales, 2007 ($1000)	80,116,528	4,174,286,516
Retail sales, 2007 ($1000)	77,547,291	3,917,663,456
Retail sales per capita, 2007	$12,563	$12,990
Accommodation and food services sales, 2007 ($1000)	10,626,759	613,795,732
Building permits, 2010	16,475	604,610
Federal spending, 2009	65,525,306[1]	3,175,336,050[2]

Geography QuickFacts	Tennessee	USA
Land area in square miles, 2010	41,234.90	3,531,905.43
Persons per square mile, 2010	153.9	87.4
FIPS Code	47	

1: Includes data not distributed by county.
2: Includes data not distributed by state.

Population estimates for counties will be available in April, 2012 and for cities in June, 2012.

(a) Includes persons reporting only one race.
(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information
F: Fewer than 100 firms
FN: Footnote on this item for this area in place of data
NA: Not available
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Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
Last Revised: Tuesday, 17-Jan-2012 16:41:36 EST

Attachment C.Need.4.B

Find Shortage Areas: MUA/P by State and County

Shortage Designation Home

Find Shortage Areas

HPSA & MUA/P by Address

HPSA by State & County

HPSA Eligible for the Medicare Physician Bonus Payment

Criteria:
State: Tennessee
County: Shelby County
ID #: All

Results: 58 records found.

Name	ID#	Type	Score	Designation Date	Update Date
Shelby County					
Shelby Service Area	03249	MUA	56.50	1994/07/12	
CT 0201.00					
CT 0202.10					
CT 0205.12					
Shelby Service Area	03250	MUA	51.00	1994/07/12	
CT 0216.20					
CT 0219.00					
CT 0220.10					
CT 0220.21					
CT 0220.22					
CT 0221.11					
CT 0221.12					
CT 0222.10					
CT 0222.20					
CT 0223.10					
CT 0223.21					
CT 0223.30					
CT 0224.10					
CT 0224.21					
Nw Memphis Service Area	07469	MUA	56.00	2005/04/06	
CT 0002.00					
CT 0003.00					
CT 0004.00					
CT 0005.00					
CT 0006.00					
CT 0007.00					
CT 0008.00					
CT 0009.00					
CT 0010.00					
CT 0011.00					
CT 0012.00					
CT 0013.00					
CT 0014.00					
CT 0015.00					
CT 0017.00					
CT 0018.00					
CT 0019.00					
CT 0020.00					
CT 0021.00					
CT 0022.00					
CT 0023.00					
CT 0024.00					
CT 0025.00					
CT 0027.00					
CT 0028.00					
CT 0030.00					
CT 0036.00					
CT 0089.00					
CT 0090.00					
CT 0099.00					
CT 0100.00					
CT 0101.10					
CT 0101.20					
CT 0102.10					
CT 0102.20					
CT 0103.00					
CT 0205.21					
CT 0205.22					

NEW SEARCH | MODIFY SEARCH CRITERIA

Find Shortage Areas: HPSA by State & County

Shortage Designation Home
Find Shortage Areas
HPSA & MUA/P by Address
HPSA Eligible for the Medicare Physician Bonus Payment
MUA/P by State & County

Criteria:

State: Tennessee
County: Shelby County
ID: All
Date of Last Update: All Dates
HPSA Score (lower limit): 0
Discipline: Primary Medical Care
Metro: All
Status: Designated
Type: All

Results: 113 records found.
(Satellite sites of Comprehensive Health Centers automatically assume the HPSA score of the affiliated grantee. They are not listed separately.)

HPSA Name	ID	Type	FTE	# Short	Score
157 - Shelby County					
Low Income - N.W. Memphis-Frayser	1479994706	Population Group	20	6	15
C.T. 0002.00		Census Tract			
C.T. 0003.00		Census Tract			
C.T. 0004.00		Census Tract			
C.T. 0005.00		Census Tract			
C.T. 0006.00		Census Tract			
C.T. 0007.00		Census Tract			
C.T. 0008.00		Census Tract			
C.T. 0009.00		Census Tract			
C.T. 0010.00		Census Tract			
C.T. 0011.00		Census Tract			
C.T. 0012.00		Census Tract			
C.T. 0013.00		Census Tract			
C.T. 0014.00		Census Tract			
C.T. 0015.00		Census Tract			
C.T. 0017.00		Census Tract			
C.T. 0018.00		Census Tract			
C.T. 0019.00		Census Tract			
C.T. 0020.00		Census Tract			
C.T. 0021.00		Census Tract			
C.T. 0022.00		Census Tract			
C.T. 0023.00		Census Tract			
C.T. 0024.00		Census Tract			
C.T. 0025.00		Census Tract			
C.T. 0027.00		Census Tract			
C.T. 0028.00		Census Tract			
C.T. 0030.00		Census Tract			
C.T. 0035.00		Census Tract			
C.T. 0089.00		Census Tract			
C.T. 0090.00		Census Tract			
C.T. 0099.00		Census Tract			
C.T. 0100.00		Census Tract			
C.T. 0101.10		Census Tract			
C.T. 0101.20		Census Tract			
C.T. 0102.10		Census Tract			
C.T. 0102.20		Census Tract			
C.T. 0103.00		Census Tract			
C.T. 0205.11		Census Tract			
C.T. 0205.12		Census Tract			
C.T. 0205.21		Census Tract			
C.T. 0205.22		Census Tract			
Low Income - Southwest Memphis	1479994707	Population Group	40	2	8
C.T. 0037.00		Census Tract			
C.T. 0038.00		Census Tract			
C.T. 0039.00		Census Tract			
C.T. 0040.00		Census Tract			
C.T. 0041.00		Census Tract			
C.T. 0044.00		Census Tract			
C.T. 0045.00		Census Tract			
C.T. 0046.00		Census Tract			
C.T. 0047.00		Census Tract			
C.T. 0048.00		Census Tract			
C.T. 0049.00		Census Tract			
C.T. 0050.00		Census Tract			
C.T. 0051.00		Census Tract			
C.T. 0053.00		Census Tract			
C.T. 0054.00		Census Tract			
C.T. 0055.00		Census Tract			
C.T. 0056.00		Census Tract			
C.T. 0057.00		Census Tract			
C.T. 0058.00		Census Tract			
C.T. 0059.00		Census Tract			
C.T. 0060.00		Census Tract			
C.T. 0061.00		Census Tract			
C.T. 0062.00		Census Tract			
C.T. 0063.00		Census Tract			
C.T. 0064.00		Census Tract			
C.T. 0065.00		Census Tract			
C.T. 0066.00		Census Tract			
C.T. 0067.00		Census Tract			
C.T. 0068.00		Census Tract			

C.T. 0069.00		Census Tract			
C.T. 0070.00		Census Tract			
C.T. 0073.00		Census Tract			
C.T. 0074.00		Census Tract			
C.T. 0075.00		Census Tract			
C.T. 0078.10		Census Tract			
C.T. 0078.21		Census Tract			
C.T. 0078.22		Census Tract			
C.T. 0079.00		Census Tract			
C.T. 0080.00		Census Tract			
C.T. 0081.10		Census Tract			
C.T. 0081.20		Census Tract			
C.T. 0082.00		Census Tract			
C.T. 0084.00		Census Tract			
C.T. 0104.10		Census Tract			
C.T. 0104.20		Census Tract			
C.T. 0105.00		Census Tract			
C.T. 0106.10		Census Tract			
C.T. 0106.20		Census Tract			
C.T. 0106.30		Census Tract			
C.T. 0108.10		Census Tract			
C.T. 0109.00		Census Tract			
C.T. 0110.10		Census Tract			
C.T. 0110.20		Census Tract			
C.T. 0217.31		Census Tract			
C.T. 0220.10		Census Tract			
C.T. 0220.21		Census Tract			
C.T. 0220.22		Census Tract			
C.T. 0221.11		Census Tract			
C.T. 0221.12		Census Tract			
C.T. 0222.10		Census Tract			
C.T. 0222.20		Census Tract			
C.T. 0223.10		Census Tract			
C.T. 0223.21		Census Tract			
C.T. 0223.22		Census Tract			
C.T. 0223.30		Census Tract			
C.T. 0224.10		Census Tract			
C.T. 0224.21		Census Tract			
C.T. 0224.22		Census Tract			
Federal Correctional Institution - Memphis	1479994730	Correctional Facility	0	1	12
Christ Community Health Services, Inc.	1479994793	Comprehensive Health Center		0	17
Memphis Health Center, Inc.	1479994795	Comprehensive Health Center		0	17

NEW SEARCH MODIFY SEARCH CRITERIA

NOTE: On Thursday November 3, 2011, the list of designated HPSAs was updated to reflect the publication of the Federal Register Notice with the list of designated HPSAs as of September 1, 2011. HPSAs that were designated after September 1, 2011 are considered designated even though they are not on the federal register listing; HPSAs that have been placed in "proposed for withdrawal" or "no new data" status since September 1, 2011 will remain in that status until the publication of the next federal register notice. If there are any questions about the status of a particular HPSA or area, we recommend that you contact the state primary care office in your state; a listing can be obtained at http://bhpr.hrsa.gov/shortage/hpsas/primarycareoffices.html.

APM
American Program Management

Attachment C.EF.1

June 12, 2014

J. Richard Wagers, Jr.
Regional One Health Imaging, LLC
877 Jefferson Avenue
Memphis, TN 38103

Dear Mr. Wagers,

As Project Manager for the Regional One Health Imaging, LLC build-out at Kirby Center in Memphis, I have reviewed the construction costs for this project, and believe that in addition to the tenant build out allowance that is paid by the developer, $249,000 is a sufficient estimate to complete this project. Further, this estimate has been prepared taking into account that the project will be completed to provide a physical environment compliant with all applicable federal, state and local construction codes, standards, specifications, and requirements, and the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the 2010 AIA Guidelines for Design and Construction of Health Care Facilities.

Sincerely,

Warren N. Goodwin, FAIA
President & CEO

Cc: Graham Baker

103 Continental Place, Suite 100
Brentwood, TN 37027
www.apmproject.com
Certified Veteran Owned Small Business

Attachment C.EF.2

Regional One Health

JUN 13 '14 2:02

June 11, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Regional One Health Imaging, LLC, owned by
Shelby County Health Care Corporation, d/b/a, Regional One Health

Mrs. Hill,

I am the Chief Financial Officer for Shelby County Health Care Corporation. Our latest financials, submitted with our Certificate of Need application, show that we have sufficient cash reserves to fund the $817,350 indicated cash portion of the project (plus working capital required to absorb start-up losses). While the project totals over $5.3 million, the balance of the project cost includes eleven years of facility rent and leasing/maintenance costs for medical equipment.

This is to notify you that our cash reserves are both available and dedicated to this project.

Please contact me if you have any questions.

Sincerely,

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO

KPMG

SHELBY COUNTY HEALTH CARE CORPORATION

(A Component Unit of Shelby County, Tennessee)

Basic Financial Statements and Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Table of Contents

KPMG LLP
Suite 900
50 North Front Street
Memphis, TN 38103-1194

Independent Auditors' Report

The Board of Directors
Shelby County Health Care Corporation:

Report on the Financial Statements

We have audited the accompanying statements of net position and statements of revenues, expenses, and changes in net position and cash flows of Shelby County Health Care Corporation, a component unit of Shelby County, Tennessee (d/b/a The Regional Medical Center at Memphis – The Med) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Shelby County Health Care Corporation as of June 30, 2013 and 2012, and the respective changes in net position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Med's basic financial statements. The supplementary information included in Schedule 1, 2, and 3 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of The Med's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Med's internal control over financial reporting and compliance.

KPMG LLP

Memphis, Tennessee
October 18, 2013

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Net Position

June 30, 2013 and 2012

Assets	2013	2012
Assets:		
Cash and cash equivalents	$ 15,471,067	18,647,650
Investments	121,197,478	122,945,621
Patient accounts receivable, net of allowances for uncollectible accounts of $102,548,000 in 2013 and $119,208,000 in 2012	45,906,287	50,147,138
Other receivables	9,870,264	8,543,744
Other current assets	4,974,546	4,306,744
Restricted investments	3,720,087	3,323,723
Capital assets, net	87,769,941	63,111,622
Total assets	$ 288,909,670	271,026,242
Liabilities and Net Position		
Liabilities:		
Accounts payable	$ 12,042,438	9,658,526
Accrued expenses and other current liabilities	27,518,945	27,159,845
Accrued professional and general liability costs	5,200,000	6,018,000
Net postemployment benefit obligation	912,000	912,000
Total liabilities	45,673,383	43,748,371
Net position:		
Net investment in capital assets	87,769,941	63,111,622
Restricted for:		
Capital assets	2,897,689	2,572,798
Indigent care	822,398	750,925
Unrestricted	151,746,259	160,842,526
Total net position	243,236,287	227,277,871
Commitments and contingencies		
Total liabilities and net position	$ 288,909,670	271,026,242

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenue (including additional incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs of approximately $72,928,000 in 2013 and $80,997,000 in 2012)	$ 303,785,730	325,541,073
Other revenue	17,299,369	10,225,345
Total operating revenues	321,085,099	335,766,418
Operating expenses:		
Salaries and benefits	150,862,502	146,617,414
Supplies and services	70,047,247	67,116,810
Physician and professional fees	27,904,579	25,813,984
Purchased medical services	23,827,404	22,226,761
Plant operations	12,348,849	13,171,232
Insurance	2,011,533	2,820,277
Administrative and general	31,961,705	22,734,934
Community services	632,390	1,380,063
Depreciation and amortization	13,000,644	11,391,621
Total operating expenses	332,596,853	313,273,096
Operating (loss) gain	(11,511,754)	22,493,322
Nonoperating revenues:		
Investment income	347,504	1,423,480
Appropriations from Shelby County	26,816,001	26,816,511
Other	306,665	2,662
Total nonoperating revenues	27,470,170	28,242,653
Increase in net position	15,958,416	50,735,975
Net position, beginning of year	227,277,871	176,541,896
Net position, end of year	$ 243,236,287	227,277,871

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	$ 307,747,888	304,745,173
Other cash receipts	16,361,590	10,172,165
Payments to suppliers	(166,237,587)	(156,711,192)
Payments to employees and related benefits	(152,211,460)	(143,356,032)
Net cash provided by operating activities	5,660,431	14,850,114
Cash flows from noncapital financing activity:		
Appropriations received from Shelby County	26,816,001	26,816,511
Net cash provided by noncapital financing activity	26,816,001	26,816,511
Cash flows from capital and related financing activities:		
Capital expenditures	(37,669,963)	(20,703,680)
Proceeds from sale of capital assets	40,600	18,637
Net cash used in capital and related financing activities	(37,629,363)	(20,685,043)
Cash flows from investing activities:		
Purchases of investments	(236,280,471)	(152,418,086)
Proceeds from sale of investments	240,307,747	101,347,058
Distributions received from joint venture	277,065	—
Investment income proceeds	(2,327,993)	1,919,634
Net cash provided by (used in) investing activities	1,976,348	(49,151,394)
Net decrease in cash and cash equivalents	(3,176,583)	(28,169,812)
Cash and cash equivalents, beginning of year	18,647,650	46,817,462
Cash and cash equivalents, end of year	$ 15,471,067	18,647,650

(Continued)

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating (loss) gain to net cash provided by operating activities:		
Operating (loss) gain	$ (11,511,754)	22,493,322
Adjustment to reconcile operating (loss) gain to net cash provided by operating activities:		
Depreciation and amortization	13,000,644	11,391,621
Changes in operating assets and liabilities:		
Patients accounts receivable, net	4,240,851	(20,747,895)
Other receivables	(1,326,520)	(156,760)
Other current assets	(667,802)	(520,021)
Accounts payable	2,383,912	2,806,081
Accrued expenses and other current liabilities	359,100	65,766
Accrued professional and general liability costs	(818,000)	(482,000)
Net cash provided by operating activities	$ 5,660,431	14,850,114
Supplemental schedule of noncash investing and financing activities:		
Net decrease in the fair value of investments	$ 2,674,511	486,477
Gain on capital asset disposals	29,600	2,662

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis – The Med) was incorporated on June 15, 1981, with the approval of the Board of County Commissioners of Shelby County, Tennessee (the County). The Med is a broad continuum healthcare provider that operates facilities owned by the County under a long-term lease. The lease arrangement effectively provided for the transfer of title associated with operating fixed assets and the long-term lease (for a nominal amount) of related real property. The lease expires in 2031.

The Med is a component unit of the County as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The Med's component unit relationship to the County is principally due to financial accountability and financial benefit or burden as defined in GASB Statement No. 61. The Med is operated by a 13-member board of directors, all of whom are appointed by the Mayor of the County and approved by the County Commission.

The Regional Medical Center at Memphis Foundation (The Med Foundation) is a component unit of The Med principally due to The Med's financial accountability and financial benefit or burden for The Med Foundation as defined in GASB Statement No. 61. The Med Foundation is operated by a board of directors, all of whom are appointed by The Med's board. The Med Foundation is a blended component unit of The Med because it provides services entirely to The Med. The Med Foundation issues separate audited financial statements, which can be obtained by writing to The Regional Medical Center Foundation, 877 Jefferson Avenue, Memphis, Tennessee 38103 or by calling 901-545-7482.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires a management's discussion and analysis (MD&A) section providing an analysis of The Med's overall financial position and results of operations; however, The Med has chosen to omit the MD&A from these accompanying financial statements.

The significant accounting policies used by The Med in preparing and presenting its financial statements follow:

(a) Presentation

The financial statements include the accounts of The Med. All material intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to estimates and assumptions include the determination of the allowances for contractual adjustments and uncollectible accounts, reserves for professional and general liability

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claims, reserves for employee healthcare claims, net postretirement benefit cost and obligation, and estimated third-party payor settlements.

In addition, laws and regulations governing the Medicare, TennCare, and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Enterprise Fund Accounting

The Med's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting.

(d) Cash Equivalents

The Med considers investments in highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) Investments and Investment Income

Investments are carried at fair value, principally based on quoted market prices. Investment income (including realized and unrealized gains and losses) from investments is reported as nonoperating revenue.

(f) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or replacement market.

(g) Investments in Joint Ventures

Investments in joint ventures consist of The Med's equity interests in joint ventures as measured by its ownership interest if The Med has an ongoing financial interest in or ongoing financial responsibility for the joint venture. The investments are initially recorded at cost and are subsequently adjusted for additional contributions, distributions, undistributed earnings and losses, and impairment losses.

(h) Capital Assets

Capital assets are recorded at cost, if purchased, or at fair value at the date of donation. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Maintenance and repairs are charged to operations. Major renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net position.

The Med capitalizes interest cost on qualified construction expenditures, net of income earned on related trusteed assets, as a component of the cost of related projects. No such interest costs were capitalized in 2013 or 2012.

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All capital assets other than land are depreciated using the following lives:

Land improvements	5 to 25 years
Buildings and improvements	10 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Software	3 years

(i) Impairment of Capital Assets

Capital assets are reviewed for impairment when service utility has declined significantly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2013 or 2012.

(j) Compensated Absences

The Med's employees accumulate vacation, holiday, and sick leave at varying rates depending upon years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time accumulates and vests, an accrual for this liability is included in accrued expenses and other current liabilities in the accompanying statements of net positions. An accrual is recognized for unused sick leave expected to be paid to employees eligible to retire.

(k) Net Position

Net position of The Med is classified into the following components:

- *Net investment in capital assets*, consist of capital assets net of accumulated depreciation.
- *Restricted* include those amounts with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments).
- *Unrestricted* represents remaining amounts that do not meet either of the above definitions.

When The Med has both restricted and unrestricted resources available to finance a particular program, it is The Med's policy to use restricted resources before unrestricted resources.

The Med Foundation historically and to-date does not maintain donor-restricted endowment funds, or any Board-designated endowments. The Med Foundation's Board has interpreted Tennessee's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. In all material respects, income from The Med Foundation's donor-restricted endowment funds is itself restricted to specific donor-directed purposes, and is, therefore, accounted for within restricted amounts until expended in accordance

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with the donor's wishes. The Med Foundation oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

(l) Statement of Revenues, Expenses, and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Other transactions, such as investment income, appropriations from Shelby County, gain (loss) on disposal of capital assets, and equity in earnings and impairment losses of joint ventures, are reported as nonoperating revenues and expenses.

(m) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Changes in estimates related to prior cost reporting periods resulted in an increase in net patient service revenue of approximately $1,552,000 and $3,992,000 in 2013 and 2012, respectively.

(n) Charity Care

The Med provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because The Med does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

When defining charity care, The Med employs the Federal Poverty Guideline (FPG) to determine the level of discount uninsured patients receive. The level by which assistance is determined is through the scale set by DHHS (Department of Health and Human Services), which includes factors such as residents per household and income. The Med's methodology includes all patients that fall at or below the 150% FPG baseline. The Med does not have a cap to which patients will not qualify for a discount. Additionally, The Med's charity care guidelines provide for an expansive definition of charity care patients, including an upfront discount from standard charges for uninsured patients.

(o) Income Taxes

The Med is a not-for-profit corporation organized by the approval of the Board of County Commissioners of the County and qualifies as a tax-exempt entity under Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes, except for tax on income from activities unrelated to its exempt purpose as described in IRC Section 512(a). Thus, no provision for income taxes has been recorded in the accompanying financial statements.

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(p) *Appropriations*

The County has historically appropriated funds annually to The Med to partially offset the cost of medical care for indigent residents of the County. Appropriations for indigent residents from the County were approximately $26.8 million for both the years ended June 30, 2013 and 2012. Appropriations from the County are reported as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

(q) *Recent Pronouncements*

During the year ended June 30, 2013, The Med adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (Statement No. 63). This new accounting pronouncement requires that amounts representing deferred outflows of resources be reported in a balance sheet in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. Statement No. 63 further requires that the balance sheet report the residual amount as "net position" rather than "net assets." Net position represents the difference between all other elements in a balance sheet and should be displayed in three components – "net investment in capital assets," "restricted," and "unrestricted." The adoption of Statement No. 63 did not have a material impact on The Med's financial statements.

During the year ended June 30, 2013, The Med adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement No. 62). The primary objective of the new accounting pronouncement is to directly incorporate the applicable provisions of FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989 into the state and local government accounting and financial reporting standards. Statement No. 62 also eliminates the option provided in GASB Statement No. 20 to apply post-November 30, 1989 FASB pronouncements not in conflict with GASB pronouncements. The adoption of Statement No. 62 did not have a material impact on The Med's financial statements.

During the year ended June 30, 2013, The Med adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – amendments of GASB Statements No. 14 and No. 34* (Statement No. 61). This new accounting pronouncement modifies certain requirements for inclusion of component units in the financial reporting entity. Statement No. 61 requires that financial benefit or burden criteria be met for those entities that were previously included by meeting the fiscal dependency criteria. In addition, for organizations that do not meet the financial accountability criteria for inclusion as component units but should be included because the primary government's management has determined that it would be misleading to exclude them, Statement No. 61 clarifies the manner in which such determination should be made and the types of relationships to be considered. Furthermore, Statement No. 61 clarifies when component units should be blended or presented discretely. The adoption of Statement No. 61 did not have a material impact on the Med's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65), was published in March 2012. This new pronouncement establishes accounting and financial

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reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012 (The Med's fiscal year ending June 30, 2014).

(2) Deposits and Investments

The composition of cash and cash equivalents follows:

	2013	2012
Cash	$ 15,449,393	14,534,478
Money market funds	21,674	4,113,172
	$ 15,471,067	18,647,650

The Med's and The Med Foundation's bank balances that are considered to be exposed to custodial credit risk at June 30, 2013 are $15,088,140. Federal deposit insurance is $250,000 on all noninterest bearing accounts as of June 30, 2013. Federal deposit insurance is unlimited on all noninterest bearing accounts as of June 30, 2012, therefore, there is no custodial credit risk as of June 30, 2012.

Investments and restricted investments include amounts held by both The Med and The Med Foundation.

The composition of investments and restricted investments follows:

	2013	2012
U.S. agencies	$ 64,876,372	77,644,977
Certificates of deposit	1,132,337	710,315
Corporate bonds	33,593,663	26,054,432
Discount notes	—	29,917
Demand deposit accounts and money market funds	6,192,098	19,052,649
U.S. government funds	696,264	173,931
Common stock	3,510,579	1,806,007
Bond funds and Bond exchange-traded fund	14,327,594	—
Accrued interest	588,658	797,116
	$ 124,917,565	126,269,344

(Continued)

At June 30, 2013, The Med and The Med Foundation had investments in debt securities with the following maturities:

		Investment and restricted investment maturities (in years)			
	Fair value	Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	$ 64,876,372	—	—	6,957,190	57,919,182
Corporate bonds	33,593,663	1,440,126	616,649	26,579,958	4,956,930
	$ 98,470,035	1,440,126	616,649	33,537,148	62,876,112

At June 30, 2012, The Med and The Med Foundation had investments in debt securities with the following maturities:

		Investment and restricted investment maturities (in years)			
	Fair value	Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	$ 77,644,977	1,241,430	51,623	41,544,954	34,806,970
Corporate bonds	26,054,432	454,424	7,522,726	14,719,645	3,357,637
Discount notes	29,917	29,917	—	—	—
	$ 103,729,326	1,725,771	7,574,349	56,264,599	38,164,607

At June 30, 2013, The Med Foundation had one investment totaling $696,263 in the SEI Daily Income Trust Government Fund that represented 5% or more of total investments for The Med Foundation. The Med as of June 30, 2013 had one investment totaling $13,351,894 in iShares Barclays Intermediate Term Corporate Credit Fund that represented more than 5% of total investments. There were no investments that represented 5% or more of total investments as of June 30, 2012.

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The Med and The Med Foundation have separate investment policies that are included below. The summary of investments throughout the financial statements include the combined investment totals of The Med and The Med Foundation.

At June 30, 2013, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

	Fair value	Credit rating
$	302,061	BBB-
	2,408,467	BBB
	2,820,895	BBB+
	14,018,451	A-
	9,493,989	A
	2,940,469	A+
	541,102	AA-
	1,068,229	AA+
$	33,593,663	

At June 30, 2012, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

	Fair value	Credit rating
$	211,957	BBB-
	367,976	BBB
	838,849	BBB+
	16,800,217	A-
	3,696,146	A
	3,357,038	A+
	782,249	AA+
$	26,054,432	

The Med's and The Med Foundation's investments in discount notes at June 30, 2013 and 2012 were not rated.

As of June 30, 2013, The Med's investment strategy, per its investment policy, is to provide liquidity to fund ongoing operating needs and to act as a repository for both the accumulation of cash reserves needed to cushion economic down cycles and to provide cash earmarked for strategic needs.

The portfolio objectives of The Med, listed in order of importance, are as follows:

1. Preserve principal.

2. Maintain sufficient liquidity to meet forecasted cash needs.

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3. Maintain a diversified portfolio in order to minimize credit risk.

4. Maximize yield subject to the above criteria.

The duration of the bond investment portfolio should not exceed 6 years.

The authorized investments are as follows:

1. *Commercial Paper* – Any commercial paper issued by a domestic corporation with a maturity of 270 or less days that carries at least the second highest rating by a recognized investor service, preferably Standard and Poor's and Moody's Investors Service. Commercial paper shall not represent more than 50% of the portfolio.

2. *U.S. Treasury Securities* – U.S. Treasury notes, bills, and bonds. There is no upper limit restriction as to the maximum dollar amount or percentage of the portfolio that may be invested in U.S. Treasury securities.

3. *Bank Obligations* – Any certificate of deposit, time deposit, Eurodollar CD issued by a foreign branch of a U.S. bank, bankers' acceptance, bank note, or letter of credit issued by a (U.S.) bank possessing at least the second highest rating by a recognized investor services, preferably Standard and Poor's and Moody's Investors Service. Bank obligations (excluding repurchase agreements, commercial paper, and investments held by money market and mutual funds) may not represent more than 30% of the portfolio. In addition, brokered CDs may be purchased from institutions, irrespective of the institutions' debt ratings, so long as the obligations are fully backed by the FDIC.

4. *Repurchase Agreements* – Any Repurchase Agreement purchased from one of the top 25 U.S. banks or one of the primary dealers regulated by the Federal Reserve that is at least 102% collateralized by U.S. government obligations. Repurchase Agreements may not represent more than 20% of the portfolio.

5. *Money Market Funds* – Any open-end money market fund regulated by the U.S. government under Investment Company Act Rule 2a-7. Any investment fund regulated by a Registered Investment Advisor under Rule 3c-7. Such fund investment guidelines must state that "the fund will seek to maintain a $1 per share net asset value." The Med's investment in any one fund may not exceed 30% of the assets of the fund into which it is invested.

6. *United States Government Obligations* – Any obligation issued or backed (federal agencies) by the U.S. government. No more than 25% may be invested in obligations of any one federal agency.

7. *Corporate Bonds* – Obligations of United States and foreign corporations (including trusts and municipalities of the United States) that carry at least the third highest rating by a recognized rating service, preferably Standard & Poor's or Moody's Investors Service. Corporate bonds, held directly and initially qualifying in one of the above categories, which have been downgraded below the third highest rating, may be sold at the discretion of management. Corporate bonds may not represent more than 40% of the portfolio, foreign corporate bonds may not represent more than 20% of the

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portfolio, and corporate bonds in the fourth highest rating category may not represent more than 20% of the portfolio.

8. *Bond Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as on open-end mutual fund that is managing a portfolio or debt obligations. Each mutual fund should have a minimum of $2 billion invested and hold at least 100 different debt obligations. Bond mutual funds can only hold the Authorized Investments meeting all the criteria described above. Additionally, bond mutual funds can hold corporate bonds in the fifth and sixth highest ratings category as long as such holdings to not exceed 10% of the portfolio. Corporate bonds, held via bond mutual funds and initially qualifying in one of the above categories, which have been downgraded below the sixth highest rating, may not exceed 2% of the portfolio.

9. *Equity Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as an open-end mutual fund that is managing a portfolio of equity securities. Each mutual fund should have a minimum of $2 billion invested and hold at least 100 different equity securities. Such holdings should not represent more than 20% of the portfolio, Equity Mutual Funds can hold equity securities (including common and preferred stocks) of the 1,000 largest corporations in terms of market capitalization and inclusion in the Russell 1000 Index (representing large cap stocks) that are traded on U.S. exchanges reported in the Wall Street Journal.

10. *Debt Buy Back* – Any debt obligation backed directly by Regional Medical Center may be purchased so long as it is purchased at a discount.

11. Notwithstanding the above criteria, direct investments other than mutual funds that meet the following criteria are not permitted: corporations with more than 25% of revenues derived from the manufacture and sale of firearms, ammunition, and ammunition magazines to the general citizenry.

The Finance Committee of the Board of Directors meets periodically to review asset allocation, portfolio performance, and overall adherence to the investment policy guidelines.

As of June 30, 2013, The Med Foundation utilized one investment manager. This manager is required to make investments in adherence to The Med Foundation's current investment policy and objectives.

The Med Foundation follows an investment strategy focused on maximizing total return (i.e., aggregate return from capital appreciation and dividend and interest income) while adhering to certain restrictions designed to promote a conservative portfolio.

Specifically, the primary objective of The Med Foundation investment management strategy is to maintain an investment portfolio designed to generate a high level of current income with above-average stability.

Guidelines for investments and cash equivalents for The Med Foundation follow:

1. The Med Foundation's assets may be invested only in investment grade bonds rated Baa or higher as determined by Moody's Investors Service or by another acceptable rating agency.

2. The overall market-weighted quality rating of the bond portfolio shall be no lower than A.

(Continued)

3. The Med Foundation's assets may be invested only in commercial paper rated P-2 or higher by Moody's Investors Service or by another acceptable rating agency.

4. The market-weighted maturity of the base portfolio shall be no longer than 10 years.

5. Quality of the equity securities will be governed by the federal Employee Retirement and Income Security Act, the Tennessee guidelines for investing trust funds, and the "prudent man rule."

6. Conservative option strategies may be used, with a goal of increasing the stability of the portfolio.

The Med Foundation limits investments in common stock to 40% of its investment portfolio. The remainder of the portfolio is to be invested in fixed income investments.

Investment income is comprised of the following:

	2013	2012
Dividend and interest income	$ 3,022,015	1,909,927
Net decrease in the fair value of investments	(2,674,511)	(486,447)
	$ 347,504	1,423,480

(3) **Business and Credit Concentrations**

The Med grants credit to patients, substantially all of whom are local area residents. The Med generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of receivables from patients and third-party payors follows, before application of related valuation allowances:

	2013	2012
Commercial insurance	31%	40%
Patients	36	32
Medicaid/TennCare	17	12
Medicare	16	16
	100%	100%

(Continued)

(4) Other Receivables

The composition of other receivables follows:

	2013	2012
Accounts receivable from University of Tennessee Center for Health Services	$ 1,618,058	1,508,011
Accounts receivable from the County	49,536	84,936
Accounts receivable from the State of Tennessee	5,277,305	4,998,611
Grants receivable	291,099	294,783
Other	2,634,266	1,657,403
	$ 9,870,264	8,543,744

(5) Other Current Assets

The composition of other current assets follows:

	2013	2012
Inventories	$ 3,857,425	3,320,733
Prepaid expenses	1,117,121	986,011
	$ 4,974,546	4,306,744

(Continued)

(6) Capital Assets

Capital assets and related activity consist of the following:

	Balances at June 30, 2012	Additions	Retirements	Transfers	Balances at June 30, 2013
Capital assets not being depreciated:					
Construction in progress	$ 7,641,128	31,289,335	—	(29,010,649)	9,919,814
Land	108,955	—	—	5,726,371	5,835,326
Total book value of capital assets not being depreciated	7,750,083	31,289,335	—	(23,284,278)	15,755,140
Capital assets being depreciated:					
Land improvements	6,812,481	51,970	—	—	6,864,451
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	110,348,027	1,441,911	—	4,185,784	115,975,722
Movable equipment	125,991,913	4,468,458	(21,797)	7,938,927	138,377,501
Software	17,730,009	418,289	(2,826)	11,159,567	29,305,039
Total book value of capital assets being depreciated	326,119,131	6,380,628	(24,623)	23,284,278	355,759,414
Less accumulated depreciation for:					
Land improvements	(5,473,625)	(150,374)	—	—	(5,623,999)
Buildings	(55,773,625)	(804,888)	—	—	(56,578,513)
Fixed equipment	(90,073,720)	(3,152,146)	—	—	(93,225,866)
Movable equipment	(105,150,605)	(6,823,192)	13,623	—	(111,960,174)
Software	(14,286,017)	(2,070,044)	—	—	(16,356,061)
Total accumulated depreciation	(270,757,592)	(13,000,644)	13,623	—	(283,744,613)
Capital assets being depreciated, net	55,361,539	(6,620,016)	(11,000)	23,284,278	72,014,801
Capital assets, net	$ 63,111,622	24,669,319	(11,000)	—	87,769,941

(Continued)

	Balances at July 1, 2011	Additions	Retirements	Transfers	Balances at June 30, 2012
Capital assets not being depreciated:					
Construction in progress	$ 1,297,077	12,478,213	—	(6,134,162)	7,641,128
Land	—	—	—	108,955	108,955
Total book value of capital assets not being depreciated	1,297,077	12,478,213	—	(6,025,207)	7,750,083
Capital assets being depreciated:					
Land improvements	6,167,621	66,566	—	578,294	6,812,481
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	107,454,124	1,909,677	(1,982)	986,208	110,348,027
Movable equipment	118,773,840	5,617,206	(141,092)	1,741,959	125,991,913
Software	14,379,245	632,018	—	2,718,746	17,730,009
Total book value of capital assets being depreciated	312,011,531	8,225,467	(143,074)	6,025,207	326,119,131
Less accumulated depreciation for:					
Land improvements	(5,342,806)	(130,819)	—	—	(5,473,625)
Buildings	(54,871,455)	(902,170)	—	—	(55,773,625)
Fixed equipment	(86,752,175)	(3,321,810)	265	—	(90,073,720)
Movable equipment	(98,997,734)	(6,279,705)	126,834	—	(105,150,605)
Software	(13,528,900)	(757,117)	—	—	(14,286,017)
Total accumulated depreciation	(259,493,070)	(11,391,621)	127,099	—	(270,757,592)
Capital assets being depreciated, net	52,518,461	(3,166,154)	(15,975)	6,025,207	55,361,539
Capital assets, net	$ 53,815,538	9,312,059	(15,975)	—	63,111,622

(7) Investments in Joint Ventures

The Med was a 50% owner in Memphis Managed Care Corporation (MMCC), a TennCare managed care organization, with which The Med contracted to provide services to MMCC enrollees. MMCC is subject to certain regulatory minimum capital requirements and, in that respect, The Med had guaranteed capital deficiencies funding for MMCC up to The Med's proportionate ownership interest in MMCC. No accrual for this obligation was required at either June 30, 2013 or 2012. During fiscal 2008, The Med and University of Tennessee Medical Group entered into a contract to sell the assets of MMCC to a publicly held managed care company. The Med received cash distributions of $277,065 in fiscal 2013 from the final liquidation of the assets of MMCC. A gain of approximately $277,000 was recognized in 2013 related to the final liquidation of these assets. No cash distributions were made or gains recognized in 2012.

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(8) Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows:

	2013	2012
Due to third-party payors	$ 5,198,000	7,817,000
Compensated absences	7,202,696	6,932,972
Deferred grant revenue	—	46,942
Accrued payroll and withholdings	6,573,249	8,191,931
Accrued employee healthcare claims	1,745,000	1,821,000
Current professional and general liability costs	2,300,000	2,350,000
Other	4,500,000	—
	$ 27,518,945	27,159,845

(9) Net Patient Service Revenue

The Med has agreements with governmental and other third-party payors that provide for reimbursement to The Med at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Med is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Medicare fiscal intermediary.

  The Med's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Med's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2008. Revenue from the Medicare program accounted for approximately 17% and 18% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

- *TennCare* – Under the TennCare program, patients traditionally covered by the State of Tennessee Medicaid program and certain members of the uninsured population enroll in managed care organizations that have contracted with the State of Tennessee to ensure healthcare coverage to their enrollees. The Med contracts with the managed care organizations to receive reimbursement for providing services to these patients. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates. Revenue from the TennCare program accounted

(Continued)

for approximately 27% and 24% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

The Med has historically received incremental reimbursement in the form of Essential Access payments through its participation in the TennCare Program. Amounts received by The Med under this program were approximately $66.4 million and $74.7 million in 2013 and 2012, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a correspondingly material adverse effect on The Med's operations.

- *Arkansas Medicaid* – Substantially all inpatient and outpatient services rendered to Arkansas Medicaid program beneficiaries are paid under prospective reimbursement methodologies established by the State of Arkansas. Certain other reimbursement items (principally inpatient nursery services and medical education costs) are based upon cost reimbursement methodologies. The Med is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Arkansas Department of Health and Human Services (DHHS). The Med's Arkansas Medicaid cost reports have been audited and settled by the Arkansas DHHS through June 30, 2007. Revenue from the State of Arkansas Medicaid program accounted for approximately 2% and 1% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

  The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Arkansas Medicaid program. The net benefit for The Med associated with this program, totaling approximately $2.3 million and $2.8 million for the years ended June 30, 2013 and 2012, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

- *Mississippi Medicaid* – Inpatient and outpatient services rendered to Mississippi Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the State of Mississippi. Revenue from the State of Mississippi Medicaid program accounted for approximately 3% of The Med's net patient service revenue for both the years ended June 30, 2013 and 2012.

  The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Mississippi Medicaid program. The net benefit for The Med associated with this program, totaling approximately $4.2 million and $3.5 million for the years ended June 30, 2013 and 2012, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position.

(Continued)

- *Other* – The Med has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The reimbursement methodologies under these agreements include prospectively determined rates per discharge, per diem amounts, and discounts from established charges.

The composition of net patient service revenue follows:

	2013	2012
Gross patient service revenue	$ 918,361,574	921,201,697
Less provision for contractual and other adjustments	565,394,523	516,648,494
Less provision for bad debts	49,181,321	79,012,130
Net patient service revenue	$ 303,785,730	325,541,073

The composition of incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs follows:

	2013	2012
TennCare Essential Access	$ 66,428,367	74,695,475
Arkansas UPL/Disproportionate Share	2,268,466	2,770,773
Mississippi Disproportionate Share	4,231,388	3,531,107
Total payments	$ 72,928,221	80,997,355

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, The Med must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. The Med received approximately $2.9 million and $3.7 million of incentive payments related to EHR implementation for the years ended June 30, 2013 and 2012, respectively. These amounts are included within net patient service revenue within the statements of revenues, expenses, and change in net position.

(10) Charity Care

The Med maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, were approximately $340.7 million and $297.2 million in 2013 and 2012, respectively. Included in the charges foregone is the upfront discount applied to all uninsured patients of approximately $198.0 million and $187.0 million in 2013 and 2012, respectively, as The Med does not pursue collection on these amounts.

(Continued)

(11) Retirement Plans

(a) Defined Benefit Plan

The Med contributes to the Shelby County Retirement System (the Retirement System), a cost-sharing single-employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The Retirement System is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 North Main, Memphis, Tennessee 38103 or by calling 901-545-3570.

Shelby County provides office space and certain administrative services at no cost to the Retirement System. All other costs to administer the plan are paid from plan earnings.

Substantially all full-time and permanent part-time employees of Shelby County (including The Med and Shelby County's other component units), other than the Shelby County Board of Education employees, employees who have elected to be covered by Social Security with the exception of The Med employees, employees designated as Comprehensive Employment Training Act employees after July 1, 1979, and certain employees of The Med are required, as a condition of employment, to participate in the Retirement System.

The Retirement System consists of three plans (Plans A, B, and C). In 1990, Plans A and B were merged into one reporting entity, whereby total combined assets of the merged plans are available for payment of benefits to participants of either of the two previously existing plans. In 2005, Plan C was added and merged with Plans A and B for funding purposes. While the plans were merged, the Retirement System has retained the membership criteria of the previous plans, which are as follows:

- Plan C, a contributory cost-sharing multiple-employer defined benefit pension plan for employees who are also eligible for Plan A,
- Plan B, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired prior to December 1, 1978, and
- Plan A, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired on or after December 1, 1978, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Plan A was noncontributory for all years prior to 2013.

The Shelby County Board of Commissioners establishes the Retirement System's benefit provisions. Once a person becomes a participant, that person will continue to participate as long as he or she is an employee of Shelby County or The Med. The Retirement System provides retirement, as well as survivor and disability defined benefits.

The Retirement System's funding policy for employee contribution requirements is established by the Board of Administration of the Retirement System. The Shelby County Board of Commissioners

(Continued)

establishes the Retirement System's funding policy for employer contribution requirements. For fiscal years 2013, 2012, and 2011, the employer contribution requirements were based on the actuarially determined contribution rates, which were 12.75%, 12.01%, and 9.21%, respectively.

The actuarially determined contribution rate was calculated using a projected unit credit service pro rata cost method for Plan A, Plan B, and Plan C participants.

For fiscal years 2013, 2012, and 2011, the following contributions were made to the defined benefit plans:

		2013	2012	2011
The Med's contributions:				
Plan A	$	360,271	365,157	317,039
Plan B		1,999	1,301	164
Plan C		86,391	108,501	134,580
Employee contributions:				
Plan A	$	15,728	8,608	—
Plan B		703	491	89
Plan C		26,524	33,251	48,938

The contributions as a percentage of earned compensation were the same as those for the Retirement System. The Med contributed 100% of its required contributions in 2013, 2012, and 2011.

(b) *Defined Contribution Plan*

Effective July 1, 1985, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service, as defined, and are not participating in any other pension program to which The Med makes contributions. The plan provides for employee contributions of between 2% and 6% of compensation and for equal matching contributions made by The Med. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures are returned to The Med to reduce future matching contributions. The defined contribution plan ceased accepting contributions on September 30, 2009; therefore, there were no contributions by The Med or participants for the years ended June 30, 2013 and 2012.

Effective October 1, 2009, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis 403(b) Retirement Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service. The plan provides for a 50% employer match on employee contributions up to 6% of employee compensation. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures remain in the plan for the benefit of

(Continued)

other participants. The Med contributed $1.6 million and $1.5 million to the 403(b) plan for the years ended June 30, 2013 and 2012, respectively. 403(b) plan participants contributed approximately $3.4 million and $3.2 million to the 403(b) plan for the years ended June 30, 2013 and 2012, respectively.

Effective December 1, 2010, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Nonqualified Supplemental Retirement Plan (Supplemental Retirement Plan). The Supplemental Retirement Plan was formed under Section 457(f) of the IRC of 1986, and management believes that it complies with all provisions applicable to a nonqualified deferred compensation plan under IRC Section 409A. Plan participants contributed approximately $84,000 to the plan for both the years ended June 30, 2013 and 2012.

(12) Postretirement Benefit Plan

Regional Medical Center Healthcare Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan sponsored and administered by The Med. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. The Med's Board of Directors is authorized to establish and amend all provisions. The Med does not issue a publicly available financial report that includes financial statements and required supplementary information for the Plan.

During fiscal year 2010, The Med's Board of Directors approved a plan amendment that eliminated medical coverage for those employees who did not have 15 years of service as of December 31, 2009 and eliminated life insurance coverage for those employees retiring January 1, 2010 or later.

Per GASB Statement No. 45, *Accounting and Financial Reporting Employers for Postemployment Benefits Other Than Pensions*, for financial reporting purposes an actuarial valuation is required at least biennially for postretirement benefit plans with a total membership of 200 or more. The Med's postretirement benefit plan has approximately 531 and 715 members as of the last actuarial valuations of June 30, 2013 and June 30, 2011, respectively.

(a) Funding Policy

The contribution requirements of employees and the Plan are established and may be amended by The Med's Board of Directors. Monthly contributions are required by retirees who are eligible for coverage. The Med pays for costs in excess of required retiree contributions. These contributions are assumed to increase based on future medical plan cost increases. For fiscal 2013 and 2012, The Med contributed approximately $1,214,000 and $1,526,000, respectively, net of retiree contributions, to the Plan. Plan members receiving benefits contributed approximately $335,000 in fiscal 2013 and $345,000 in fiscal 2012 through their required contributions. The following table summarizes the monthly contribution rates for the year beginning July 1, 2009:

	Retiree	Spouse
Pre-Medicare	$ 1,512	1,608
Pre-Medicare Eligible	612	1,440

(Continued)

(b) *Annual OPEB Cost and Net OPEB Obligation*

The Med's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of The Med's annual OPEB cost for fiscal 2013 and 2011, the amounts actually contributed to the Plan, and changes in The Med's net OPEB obligation:

	2013	2011
Annual required contributions and annual OPEB cost	$ 1,296,634	1,148,234
Contributions made	1,296,634	1,171,234
Decrease in net OPEB obligation	—	(23,000)
Net OPEB obligation, beginning of year	912,000	935,000
Net OPEB obligation, end of year	$ 912,000	912,000

(c) *Three-Year Trend Information*

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2013	$ 1,296,634	100.0%	$ 912,000
June 30, 2012	1,535,160	103.9	851,000
June 30, 2011	1,148,234	102	912,000

(d) *Funded Status and Funding Progress – Required Supplementary Information*

As of June 30, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was $20,319,023 resulting in an unfunded actuarial accrued liability (UAAL) of $20,319,023.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as presented below as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

(e) Schedule of Funding Progress – Required Supplementary Information

Analysis of the Plan's funding status follows:

Actuarial valuation date*	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Plan assets less than AAL	Funded ratio	Covered payroll	AAL as of a percentage of covered payroll
July 1, 2012	$ —	20,319,023	20,319,023	—	$ 18,693,833	109.0
July 1, 2011	—	24,469,273	24,469,273	—	20,476,034	120.0
July 1, 2010	—	24,469,273	24,469,273	—%	21,995,253	111.0%

* All inputs for valuation is provided as of beginning of the fiscal year being actuarially valuated.

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 3% investment rate of return, which is a long-term rate of return on general account assets, and an annual inflation rate and annual healthcare cost trend rate of 6.3%, reducing each year until it reaches an annual rate of 3.3% in 2102. The UAAL is being amortized, using a level percentage of pay method, over a 30-year period under the Projected Unit Credit Method.

(13) Transactions with University of Tennessee Center for Health Services

The Med contracts with University of Tennessee Center for Health Services (UTCHS) and University of Tennessee Medical Group (UTMG) to provide, among other things, The Med's house staff, professional supervision of certain ancillary departments, and professional care for indigent patients. The Med also provides its facilities as a teaching hospital for UTCHS.

Operating expenses include approximately $42.1 million in 2013 and $41.9 million in 2012 for all professional and other services provided by UTCHS/UTMG.

(14) Risk Management

The Med has a self-insurance program for professional and general liability risks, both with respect to claims incurred after the effective date of the program and claims incurred but not reported prior to that date. The Med has not acquired any excess coverage for its self-insurance because The Med is afforded sovereign immunity in accordance with applicable statutes. Presently, sovereign immunity limits losses to $300,000 per claim. The Med has recorded an accrual for self-insurance losses totaling approximately $7.5 million and $8.4 million at June 30, 2013 and 2012, respectively.

(Continued)

Incurred losses identified through The Med's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate The Med's current inventory of reported claims and historical experience, as well as considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries.

The following is a summary of changes in The Med's self-insurance liability for professional and general liability costs for fiscal 2013 and 2012:

	2013	2012
Balance at July 1	$ 8,368,000	8,900,000
Provision for claims reported and claims incurred but not reported	(333,974)	956,000
Claims paid	(534,026)	(1,488,000)
	7,500,000	8,368,000
Amounts classified as current liabilities	(2,300,000)	(2,350,000)
Balance at June 30	$ 5,200,000	6,018,000

Like many other businesses, The Med is exposed to various risks of loss related to theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Claims settled through June 30, 2013 have not exceeded this commercial coverage in any of the three preceding years.

The following is a summary of changes in The Med's self-insurance liability for employee health coverage (included in accrued expenses and other current liabilities in the accompanying balance sheets) for fiscal 2013 and 2012:

	2013	2012
Balance at July 1	$ 1,821,000	1,510,000
Claims reported and claims incurred but not reported	11,818,341	11,910,368
Claims paid	(11,894,341)	(11,599,368)
Balance at June 30	$ 1,745,000	1,821,000

(15) Commitments

The Med has outstanding service contracts for management services, equipment maintenance, and blood supply services. Estimated future payments under the contracts follow:

2014	$ 3,785,914
2015	192,960
	$ 3,978,874

(Continued)

Expense under these contracts and other contracts was approximately $9.2 million and $9.1 million for the years ended June 30, 2013 and 2012, respectively.

(16) Leases

The Med has entered into noncancelable operating leases for certain buildings and equipment. Rental expense for all operating leases was approximately $4.9 million and $4.6 million for the years ended June 30, 2013 and 2012, respectively. The future minimum payments under noncancelable operating leases as of June 30, 2013 follow:

2014	$ 2,111,155
2015	791,109
2016	200,593
	$ 3,102,857

(17) Current Economic Environment

In light of the current sluggish recovery of the U.S. economy, management at The Med monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. While The Med was able to achieve certain objectives of importance in the current economic environment, management recognizes that economic conditions may continue to impact The Med in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);
- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding the constitutionality of the legislation, exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10; and
- Significant potential business model changes throughout the healthcare industry, including within the healthcare commercial payor industry.

(Continued)

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with changes in appropriations from the County and City of Memphis and others both currently in existence and which may or may not arise in the future, could have a material adverse impact on The Med's financial position and operating results.

Schedule 1

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)
Combining Schedule – Statements of Net Position
June 30, 2013

Assets	Shelby County Health Care Corporation	The Regional Medical Center at Memphis Foundation	Combined
Assets:			
Cash and cash equivalents	$ 15,266,095	204,972	15,471,067
Investments	118,878,545	2,318,933	121,197,478
Patient accounts receivable, net	45,906,287	—	45,906,287
Other receivables	9,812,264	58,000	9,870,264
Other current assets	4,974,296	250	4,974,546
Restricted investments	—	3,720,087	3,720,087
Capital assets, net	87,769,941	—	87,769,941
Total assets	$ 282,607,428	6,302,242	288,909,670
Liabilities and Net Position			
Liabilities:			
Accounts payable	$ 12,026,582	15,856	12,042,438
Accrued expenses and other current liabilities	27,518,945	—	27,518,945
Accrued professional and general liability costs	5,200,000	—	5,200,000
Net postemployment benefit obligation	912,000	—	912,000
Total liabilities	45,657,527	15,856	45,673,383
Net position:			
Net investment in capital assets	87,769,941	—	87,769,941
Restricted for:			
Capital assets	—	2,897,689	2,897,689
Indigent care	—	822,398	822,398
Unrestricted	149,179,960	2,566,299	151,746,259
Total net position	236,949,901	6,286,386	243,236,287
Commitments and contingencies			
Total liabilities and net position	$ 282,607,428	6,302,242	288,909,670

See accompanying independent auditors' report.

Schedule 2

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

	Shelby County Health Care Corporation	The Regional Medical Center at Memphis Foundation	Combined
Operating revenues:			
Net patient service revenue	$ 303,785,730	—	303,785,730
Other revenue	16,235,583	1,063,786	17,299,369
Total operating revenues	320,021,313	1,063,786	321,085,099
Operating expenses:			
Salaries and benefits	150,862,502	—	150,862,502
Supplies and services	70,047,247	—	70,047,247
Physician and professional fees	27,904,579	—	27,904,579
Purchased medical services	23,827,404	—	23,827,404
Plant operations	12,348,849	—	12,348,849
Insurance	2,011,533	—	2,011,533
Administrative and general	31,961,705	—	31,961,705
Community services	—	632,390	632,390
Depreciation and amortization	13,000,644	—	13,000,644
Total operating expenses	331,964,463	632,390	332,596,853
Operating (loss) gain	(11,943,150)	431,396	(11,511,754)
Nonoperating revenues (expenses):			
Investment (loss) income	(73,824)	421,328	347,504
Appropriations from Shelby County	26,816,001	—	26,816,001
Other	306,665	—	306,665
Total nonoperating revenues, net	27,048,842	421,328	27,470,170
Increase in net position	15,105,692	852,724	15,958,416
Net position, beginning of year	221,844,209	5,433,662	227,277,871
Net position, end of year	$ 236,949,901	6,286,386	243,236,287

See accompanying independent auditors' report.

Schedule 3

SHELBY COUNTY HEALTH CARE CORPORATION

(A Component Unit of Shelby County, Tennessee)

Roster of Management Officials and Board Members

June 30, 2013

(Unaudited)

Management Officials

Reginald Coopwood, M.D., President and CEO

Pam Castleman, MSN, Senior Vice President/Chief Nursing Officer

Susan Cooper, RN, MSN, FAAN, Senior Vice President/Chief Integration Officer

Carl Getto, M.D., Executive Vice President/Chief Medical Officer

Tammie Ritchey, CFRE, Vice President of Development/Foundation Executive Director

Robert Sumter, Ph.D., Executive Vice President/COO/CIO

Tish Towns, FACHE, Senior Vice President, External Relations

Rick Wagers, Senior Executive Vice President/CFO

Monica Wharton, Senior Vice President/Chief Legal Counsel

Board Members

Phil Shannon

Keith Norman

Pamela Brown

Brian Ellis

James Freeman, M.D.

Brenda Hardy, M.D.

Scot Lenoir

Scott McCormick

David Popwell

Heidi Shafer

Anthony Tate

John Vergos

Max Ostner

See accompanying independent auditors' report.

Campbell Clinic
ORTHOPAEDICS

June 10, 2014

Regional One Health Imaging, LLC
877 Jefferson Avenue
Memphis, TN 38103

Attn: Reginald W. Coopwood, MD, President/CEO

Dear Dr. Coopwood:

Please let this letter serve as documentation of support for expansion of imaging services for Regional One Health to an additional location at 6555 Quince Rd., Memphis, TN.

As you know, Campbell Clinic serves as the University of Tennessee College of Medicine's Department of Orthopedics and train 18 full-time equivalent residents at Regional One Health. In this capacity, we treat numerous Regional One patients in a variety of settings, including its trauma center, general inpatient units and outpatient clinics.

Given the range of imaging needs of these patients and that Regional One only has one MRI unit located in the hospital, many of its outpatients have limited timely access to imaging services. This access situation is further complicated because the radiology department is difficult to find and has limited proximity to convenient parking. Lastly, the hospital's location near downtown Memphis limits it access to many residents of Shelby County.

As such, the addition of the imaging services at 6555 Quince Rd. will improve capacity, access and service levels for the patients we collectively care for at Regional One Health.

Sincerely,

Frederick M. Azar, M.D.
Chief of Staff

George A. Hernandez
Chief Executive Officer

1400 South Germantown Road / Germantown, TN 38138
PH: (901) 759-3100 FX: (901) 759-3195 W: CampbellClinic.com

Attachment C.OD.3

TENNESSEE OCCUPATIONAL WAGES

Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Practitioners and Technical Occupations

Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
HEALTHCARE PRACTITIONERS AND TECHNICAL OCCUPATIONS	29-0000	N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A
Chiropractors	29-1011	70	73,430 35.30	53,610 25.80	83,330 40.05	51,870 24.95	55,930 26.90	60,000 28.85
Dentists, General	29-1021	N/A	180,240 86.65	141,390 68.00	199,660 96.00	157,710 75.80	172,550 82.95	>$145,600 >$70
Dietitians and Nutritionists	29-1031	220	52,460 25.20	39,820 19.15	58,780 28.25	43,870 21.10	51,380 24.70	59,310 28.50
Optometrists	29-1041	190	133,740 64.30	72,480 34.85	164,360 79.00	90,200 43.35	123,770 59.50	148,470 71.40
Pharmacists	29-1051	1,500	115,430 55.50	93,900 45.15	126,190 60.65	106,480 51.20	119,930 57.65	135,910 65.35
Anesthesiologists	29-1061	N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A
Family and General Practitioners	29-1062	170	206,940 99.50	136,090 65.45	242,370 116.50	161,420 77.60	>$145,600 >$70	>$145,600 >$70
Internists, General	29-1063	N/A	251,360 120.85	225,990 108.65	>$145,600 >$70	>$145,600 >$70	>$145,600 >$70	>$145,600 >$70
Obstetricians and Gynecologists	29-1064	N/A	219,270 105.40	139,290 66.95	>$145,600 >$70	170,290 81.85	>$145,600 >$70	>$145,600 >$70
Pediatricians, General	29-1065	140	190,570 91.60	149,490 71.85	211,110 101.50	160,520 77.15	178,200 85.65	>$145,600 >$70
Psychiatrists	29-1066	N/A	150,340 72.30	100,040 48.10	175,490 84.35	107,670 51.75	134,510 64.65	178,850 86.00
Surgeons	29-1067	120	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A	N/A N/A
Physicians and Surgeons, All Other	29-1069	1,150	207,510 99.75	121,250 58.30	>$145,600 >$70	150,310 72.25	>$145,600 >$70	>$145,600 >$70
Physician Assistants	29-1071	120	92,330 44.40	50,940 24.50	113,030 54.35	55,870 26.85	73,530 35.35	92,590 44.50
Registered Nurses	29-1111	12,890	65,950 31.70	49,030 23.55	74,420 35.80	52,220 25.10	61,050 29.35	72,300 34.75
Occupational Therapists	29-1122	370	74,430 35.80	56,750 27.30	83,270 40.05	63,010 30.30	74,960 36.05	86,840 41.75
Physical Therapists	29-1123	870	85,190 40.95	65,010 31.25	95,280 45.80	71,490 34.35	82,640 39.75	92,470 44.45

Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
Radiation Therapists	29-1124	60	67,840	52,480	75,520	56,970	66,010	74,550
			32.60	25.25	36.30	27.40	31.75	35.85
Recreational Therapists	29-1125	90	44,760	32,410	50,940	34,160	40,190	56,420
			21.50	15.60	24.50	16.40	19.30	27.10
Respiratory Therapists	29-1126	700	48,960	41,240	52,820	42,970	48,890	55,490
			23.55	19.85	25.40	20.65	23.50	26.70
Speech-Language Pathologists	29-1127	460	65,160	47,400	74,050	51,460	62,610	80,070
			31.35	22.80	35.60	24.75	30.10	38.50
Exercise Physiologists	29-1128	50	63,660	36,110	77,430	37,550	67,930	82,990
			30.60	17.35	37.25	18.05	32.65	39.90
Veterinarians	29-1131	190	68,820	46,580	79,950	50,840	63,020	84,030
			33.10	22.40	38.45	24.45	30.30	40.40
Audiologists	29-1181	50	54,240	48,450	57,130	49,880	54,510	59,150
			26.10	23.30	27.45	24.00	26.20	28.45
Health Diagnosing and Treating Practitioners, All Other	29-1199	60	55,790	45,220	61,080	47,250	54,400	60,110
			26.80	21.75	29.35	22.70	26.15	28.90
Medical and Clinical Laboratory Technologists	29-2011	1,540	58,280	45,220	64,810	50,040	57,920	68,020
			28.00	21.75	31.15	24.05	27.85	32.70
Medical and Clinical Laboratory Technicians	29-2012	1,750	37,790	26,410	43,470	29,710	38,740	45,290
			18.15	12.70	20.90	14.30	18.65	21.75
Dental Hygienists	29-2021	620	63,260	44,460	72,660	51,620	62,960	73,810
			30.40	21.40	34.95	24.80	30.25	35.50
Cardiovascular Technologists and Technicians	29-2031	200	43,620	27,620	51,620	30,130	40,170	56,910
			20.95	13.30	24.80	14.50	19.30	27.35

Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date May 2012.

TENNESSEE OCCUPATIONAL WAGES

Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Support Occupations

Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
HEALTHCARE SUPPORT OCCUPATIONS	31-0000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
			N/A	N/A	N/A	N/A	N/A	N/A
Home Health Aides	31-1011	1,540	22,430	16,590	25,350	17,620	20,900	27,100
			10.80	7.95	12.20	8.45	10.05	13.05
Nursing Aides, Orderlies, and Attendants	31-1012	5,370	23,110	18,660	25,330	19,960	22,630	26,330
			11.10	8.95	12.20	9.60	10.90	12.65
Psychiatric Aides	31-1013	480	19,170	16,710	20,390	16,820	18,380	21,060
			9.20	8.05	9.80	8.10	8.85	10.15
Occupational Therapist Assistants	31-2011	60	58,660	44,820	65,580	50,030	62,680	69,910
			28.20	21.55	31.55	24.05	30.15	33.60
Physical Therapist Assistants	31-2021	280	58,680	43,890	66,080	47,420	62,260	69,670
			28.20	21.10	31.75	22.80	29.95	33.50
Physical Therapist Aides	31-2022	180	22,440	16,800	25,260	17,870	20,840	24,990
			10.80	8.10	12.15	8.60	10.00	12.00
Massage Therapists	31-9011	190	33,110	17,500	40,920	19,000	28,340	37,200
			15.90	8.40	19.65	9.15	13.65	17.90
Dental Assistants	31-9091	1,100	34,550	25,970	38,830	27,670	34,660	42,110
			16.60	12.50	18.65	13.30	16.65	20.25
Medical Assistants	31-9092	2,490	28,270	22,540	31,130	24,130	27,390	30,730
			13.60	10.85	14.95	11.60	13.15	14.75
Medical Equipment Preparers	31-9093	N/A	30,170	23,080	33,710	24,730	29,370	34,940
			14.50	11.10	16.20	11.90	14.10	16.80
Medical Transcriptionists	31-9094	240	33,930	26,570	37,610	28,320	33,250	38,030
			16.30	12.75	18.10	13.60	16.00	18.30
Pharmacy Aides	31-9095	170	23,480	18,460	25,980	20,010	23,200	27,460
			11.30	8.90	12.50	9.60	11.15	13.20
Veterinary Assistants and Laboratory Animal Caretakers	31-9096	260	25,570	18,450	29,130	19,810	24,690	30,090
			12.30	8.85	14.00	9.50	11.85	14.45
Healthcare Support Workers, All Other*	31-9799	1,040	30,380	22,190	34,480	23,630	28,170	36,640
			14.60	10.65	16.60	11.35	13.55	17.60

Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date May 2012.

AGREEMENT FOR THE PROVISION OF GRADUATE MEDICAL EDUCATION AT THE REGIONAL MEDICAL CENTER AT MEMPHIS

THIS AGREEMENT is made and entered into this 1st day of July, 2011, by and between the University of Tennessee and its College of Medicine (the "UNIVERSITY"), and The Shelby County Health Care Corporation d/b/a Regional Medical Center at Memphis ("The MED").

WITNESSETH

WHEREAS, the parties have operated under a master contract governing the provision of graduate medical education ("GME") at The MED for many years; and

WHEREAS, the UNIVERSITY'S educational programs are intended to provide Students and Residents with a variety of structured learning experiences, including the participation in patient care activities;

WHEREAS, the parties acknowledge the fact that high quality medical care for patients in a hospital setting is often associated with the participation of medical students and residents participating in accredited GME programs;

WHEREAS, both the UNIVERSITY and The MED will benefit from the participation of Students and Residents providing patient care at The MED under appropriate supervision from UNIVERSITY faculty physicians;

WHEREAS, the UNIVERSITY acknowledges the importance of The MED with respect to its overall GME Programs and intends to provide The MED with a decision making role in its consortium commensurate with The MED's importance as set forth in this agreement;

NOW, THEREFORE, in consideration of the mutual agreement and covenants of the parties and for other good valuable consideration, the parties agree as follows:

I. GENERAL INFORMATION-**It is understood and agreed that:**

A. The term "Resident" shall include House Staff, House Officers, and Fellows participating under the auspices of the University in a GME program approved or recognized by the Accreditation Council on Graduate Medical Education ("ACGME"). "Resident" shall include House Staff, House Officers, and Fellows participating under the auspices of the University in the Burn Fellowship or in Oral Surgery. The term "Student" shall refer to a person enrolled as an undergraduate in the College of Medicine.

B. It is understood by both parties that Students and Residents subject to this Agreement, while participating to any extent in patient care activities, will be permitted access to The MED premises for the exclusive purpose of medical training by the UNIVERSITY, as an adjunct to the patient care activities taking

place at the MED and its facilities and are not, by virtue of such actions, considered employees, agents, or servants of The MED for any purpose.

C. The UNIVERSITY is responsible for the control and supervision of the Students and Residents and acknowledges sole responsibility for directing all aspects of their medical education.

D. Throughout the term of this Agreement, Residents are employees of The State of Tennessee, of which the University is a part. Resident's salary and benefits are provided and paid by The UNIVERSITY or the State, although they will be reimbursed as provided herein below by The MED.

The UNIVERSITY Residents are covered as State employees under the provisions of the Tennessee Claims Commission Act (1985). Evidence of current malpractice coverage reflecting inclusive dates and limitations, if any, will be provided to The MED upon request.

II. TERMS OF PERFORMANCE

A. Resident Services

1. Staffing and Supervision.

a. The UNIVERSITY agrees to provide The MED with a house staff of GME Residents in accordance with the staffing levels and departmental distribution specified in Exhibit B. House staff, including all persons enrolled in GME programs through the UNIVERSITY, shall be referred to in this Agreement as "Residents." The UNIVERSITY shall be solely responsible for recruiting, designating, assigning and training Residents at The MED. The average number and general distribution of Residents assigned to The MED shall be negotiated annually by the Associate Dean for GME and the Chief Medical Officer as Exhibit B and shall be determined no later than May 1 for the academic year which begins the following July. Periodic review shall be at least quarterly or at the request of the Chief Medical Officer at The MED. The numbers last in effect will not be changed in subsequent years without the express agreement of The MED and the UNIVERSITY. In participating in the designation of number and distribution of Residents as set forth in this Paragraph The MED assumes no responsibility for the recruitment or training of the Residents, which shall remain the sole responsibility of the UNIVERSITY.

b. The UNIVERSITY shall provide or make arrangements for designating attending physicians, all of whom shall be faculty members of the UNIVERSITY, for general supervision, and direction of all Residents and Students at The MED, consistent with the applicable guidelines developed by State and Federal laws and/or accrediting agencies. Such supervision shall be as directed by the UTGME Supervision Policy as attached (Exhibit C). The number of faculty attending physicians shall be based upon an

established ratio of faculty to housestaff for the particular department as set forth in Exhibit B.

c. In all cases the GME supervision ratio of faculty at The MED shall not be less than one faculty member per four residents.

d. Patient care and treatment shall be provided by Residents only under the supervision and direction of attending physician Faculty. Nothing in this Agreement shall be construed as assigning Residents to act on behalf of or under the direction of The MED.

B. Training Program.

1. Medical Staff Membership. Faculty shall be members of Medical Staff and subject to, and bound by, all applicable medical staff and Hospital policies of The MED. The UNIVERSITY shall be responsible for notifying its personnel of The MED's policies applicable to their job responsibilities and shall cooperate with The MED's training programs designed to instruct staff regarding The MED's policies.

2. Faculty Appointments. The MED's medical staff members must be appointed to the faculty of the UNIVERSITY College of Medicine in order to be on the Training Program teaching staff at The MED. Any faculty appointments shall be made by the UNIVERSITY College of Medicine in accordance with its established policies.

3. Cost of Resident Service. The UNIVERSITY shall pay for or provide all resident salaries, health benefits, workers compensation benefits, applicable taxes and all other reemployment related benefits or expenses.

4. MED Payment of Resident Costs. The UNIVERSITY shall bill The MED for Resident costs on a monthly basis in accordance with the provisions of Paragraph II. D. 9. This payment and all funds provided to the University under this Agreement are for the exclusive purpose of providing GME.

5. Accreditation of Teaching Program. The UNIVERSITY is responsible for maintaining accreditation of medical education and training programs implemented (in whole or in part) at The MED. The MED shall cooperate with and assist the UNIVERSITY in maintaining such accreditation, as provided for in this Agreement.

6. Documentation. The UNIVERSITY agrees to provide such documentation as is reasonably required by The MED to verify support of GME residents and Faculty. The methodology utilized by the UNIVERSITY is subject to the approval of The MED.

C. Research

The MED recognizes and agrees that, as a part of its role as a teaching hospital, it will be the location of research projects involving both inpatients and outpatients. The MED agrees to make its patients available for such research and to make its staff and equipment available to support such research under the condition that any research grant application undertaken by UNIVERSITY which requires participation in, or contribution to, patient access, space availability or other MED resource allocation, will be submitted to The MED'S CMO for approval. This function will be carried out concurrently with IRB review and shall not

delay submission of the application to the outside agency. The parties further agree that UNIVERSITY will include in its Research Grant proposals expenses which The MED would incur for use of staff, equipment and facilities if the study is conducted at The MED. The University will advise The MED of Grants awarded. University will reimburse The MED for expenses incurred for laboratory tests, radiological studies, and all other procedures required by study protocols or contracts at a mutually agreed rate. Unless otherwise agreed to, clinical research studies conducted by the UNIVERSITY at The MED are governed by a Clinical Research Agreement between the parties dated October 22, 2007.

D. The MED.

1. The MED shall, at its own expense, own, maintain and operate the Hospital with qualified and adequate personnel, and provide sufficient supplies, equipment, and facilities in order to maintain a hospital in compliance with the accreditation standards of The Joint Commission ("TJC"), ACGME, and any other applicable accrediting and regulatory bodies, and in conformity with all applicable state and federal laws, rules, regulations and standards.
2. The MED shall cooperate with the UNIVERSITY to maintain teaching or education accreditation standards within their control, and notify the UNIVERSITY within 15 days of such time as The MED has knowledge of matters which may compromise educational program accreditation. Any such notice shall be given in writing, delivered only to the UNIVERSITY's Office of Graduate Medical Education, and shall be handled in such a manner as to preserve such privileges as may be available under applicable law, including but not limited to peer review privilege.
3. The MED shall include UNIVERSITY personnel in training programs regarding medical staff Hospital policies, and shall cooperate with the UNIVERSITY in instructing UNIVERSITY personnel regarding medical staff Hospital policies.
4. The MED will provide the physical facilities and other equipment necessary for the clinical educational experiences of Residents and Students as agreed upon by both parties.
5. The MED will provide opportunities for Residents and Students to have satisfactory training experiences commensurate with the standards for Liaison Committee on Medical Education ("LCME") accredited medical schools and ACGME accredited programs.
6. The MED agrees to provide appropriate call quarters including providing the availability of food for Residents and Faculty supervising physicians on call and agrees to provide parking facilities for Residents, and Faculty supervising physicians assigned to The MED. The MED agrees to take reasonable precautions to provide a safe environment for Residents.
7. The MED shall permit Residents to have (a) access to patients as designated or assigned to them by their supervising Faculty attending

physicians, (b) access to the charts of those patients assigned, and (c) access to and use of clinical information retrieval systems within The MED.

8. The MED through its Chief Medical Officer may suspend patient care responsibilities or otherwise exclude from the Hospital any Resident or Student who fails to adhere to The MED's policies, procedures and quality expectations, subject to final resolution of any such individual's status by The MED and the UNIVERSITY. The UNIVERSITY shall provide replacement services to The MED for any Resident suspended or excluded hereunder, if available. The UNIVERSITY retains the sole right and responsibility for discipline and/or termination of residents.

9. The MED agrees to compensate the UNIVERSITY on a monthly basis upon receipt of an invoice from UNIVERSITY for the Residents and faculty supervision of Residents in accordance with fixed amounts, set in advance and agreed upon in writing by the parties and attached as an amendment to this Agreement (Exhibits A & B). The fixed amount shall include any compensation of the Residents' salary and benefits and any associated administrative costs mutually agreed upon by the parties (Exhibit A).

10. The MED shall provide baseline medical treatment and care to any Resident, for any injury incurred on the job, including without limitation, source-patient testing or screening as appropriate, with transfer of the Resident's medical records necessary for such Resident to receive subsequent care through the UNIVERSITY health care benefits program, which shall assume full Workers' Compensation responsibility for any injury related to an occurrence in the work place. The MED is not responsible for medical care for Residents except this first aid.

11. The MED shall provide certain on-duty benefits to Residents as established by the GME Committee.

E. The UNIVERSITY

1. The UNIVERSITY shall perform the responsibilities of a LCME accredited College of Medicine. This responsibility includes the exclusive control of the education and evaluation of Students.

2. The UNIVERSITY shall perform the responsibilities as the institutional sponsor of the Graduate Medical Education Program as described in the "Essentials of Accredited Residencies" published by ACGME. This includes the establishment and maintenance of a Graduate Medical Education Committee ("GMEC") which meets at least quarterly and whose membership shall include representation of the major affiliated institutions, appropriate UNIVERSITY administrators, and peer selected residents. After consultation with each hospital that has a Major Affiliation Agreement with the College of Medicine, the dean of the College of Medicine shall appoint a representative of that hospital to the GME Committee. The GMEC Chair and/or the UNIVERSITY's Designated Institutional Official ("DIO") shall present an annual report to the appropriate committees of the Medical Staff of The MED, reviewing

the activities of the GMEC as required by the ACGME Institutional Requirements. The GMEC and The appropriate Medical Staff committees of The MED shall have the opportunity to regularly communicate about the patient safety and quality of patient care provided by the Residents.

3. The UNIVERSITY shall centralize records and institutional administrative support for all approved medical education programs in the Office for Academic Affairs for Students and the Office of Graduate Medical Education for Residents. This shall include but not be limited to: a) maintenance of master records of all Residents and Students assigned to The MED, including information necessary for certification, scheduling and rotation; b) payroll and fringe benefits administration; c) the provision of central payroll function for paychecks of all Residents assigned to The MED; and d) monitoring of Resident Agreements and payroll forms.
4. The UNIVERSITY shall invoice The MED monthly for its pro rata share of Resident costs on a regular basis, including salary, FICA, fringe benefits, and any administrative costs in accordance with Paragraph II. D. 9.
5. The UNIVERSITY shall establish appropriate policies and procedures to govern GME programs in compliance with ACGME and have these policies available on the GME website for all residents and participating institutions.
6. The UNIVERSITY shall determine the qualifications for, interview, and accept all Students in the College of Medicine. The UNIVERSITY shall determine the qualification for, recruit, select, and appoint all Residents in the GME program.
7. In compliance with TJC standards, the UNIVERSITY shall make available on the GME website a listing of all Residents and the procedures that the Resident can perform without supervision. In addition, the UNIVERSITY shall provide adequate communication resources and technological support, at a minimum through computer and internet access for the DIO, GME staff, and personnel, Program Directors, faculty, Residents and The MED.
8. The UNIVERSITY shall assure compliance with Tennessee Medical Board licensure requirements for Residents.
9. The UNIVERSITY will assign Residents and Students to The MED on a rotating basis. Such assignments will be made by the Office of Academic Affairs through the individual clerkship directors for students and the respective program directors for Residents.
10. The UNIVERSITY will remove a Student or Resident from the clinical experiences at The MED at the request of The MED if the Resident's or Student's behavior and conduct are inappropriate. This shall be consistent with the provisions of Paragraph II D.8. of this Agreement.
11. The UNIVERSITY faculty will be responsible for the supervision and control of Residents and Students at The MED. Faculty members will be responsible for providing supervision according to UNIVERSITY polices

and/or LCME/ACGME, or other appropriate practice specialty guidelines. Faculty members will be responsible for providing attending and consultative services for all unassigned patients of The MED in accordance with the privileges granted to them under the Medical Staff By-Laws.

12. Faculty will supervise the education of Residents and delivery of patient care services associated with GME activities at The MED, serve as attending and consultative physicians in accordance with the Medical Staff Bylaws of The MED, and provide for appropriate documentation of treatment to patients personally or through documentation provided by Residents.
13. The Office of Graduate Medical Education shall report to The MED on a periodic basis the Residency Review Committee accreditation status and the results of an annual or their periodic survey of Residents seeking feedback from Residents as to their satisfaction with the UNIVERSITY's training programs at The MED's facilities.
14. The UNIVERSITY shall assist in preparation of data and scheduling of site visits for accreditation of Training Programs by the ACGME and other official accreditation bodies.
15. The UNIVERSITY shall prepare, on behalf of the Program Director of each Training Program, certificates indicating satisfactory completion by a Resident of training years.

III. COORDINATION OF GME ACTIVITIES

A. The primary UNIVERSITY representative for the day to day management of this Agreement will be the Associate Dean for GME for Resident issues and the Associate Dean for Academic Affairs for Student issues.

B. The primary MED representative for the day to day management of this Agreement will be the Chief Medical Officer ("CMO").

C. Dispute Resolution will be addressed by the Chancellor of the University of Tennessee Health Sciences Center and Chief Executive Officer for The MED and follow the procedure set forth in Paragraph VI. Y. below.

D. The MED's CMO will monitor Resident rotation schedules monthly to assure compliance with the annual Resident GME budget, rotation assignment plan and UTGME Supervision Guidelines. In conjunction with this review of the rotation schedule assignments, the GME office will track the actual level of faculty physician supervision provided as compared to the level budgeted.

E. Based upon the above monitoring, if the amount of Resident/faculty supervision services provided is less than the amount budgeted the overpayment will be rebated to The MED. Variances from the established budget will be monitored and reconciliations made on not less than a quarterly basis.

IV. TERM AND TERMINATION

A. Effective Date. The effective date of this Agreement shall be July 1, 2011.

B. Term. The term of this Agreement shall be five (5) years, beginning on the effective date of this Agreement and ending June 30, 2016. As ACGME requires

all hospital agreements to be no more than five years old, this Agreement cannot be extended for additional time beyond 2016.

C. Termination.

1. For Convenience. This Agreement may be terminated without cause by any party by the provision of at least 365 days prior written notice to the other parties.

2. Upon Material Change. In the event of a change or changes in the health care regulatory or reimbursement environment which could reasonably be expected to substantially deprive any party of one or more of the material benefits contemplated by this Agreement, then the parties shall, within fifteen (15) calendar days following notice from one party to the other of the occurrence of such a change begin negotiations in good faith to amend this Agreement as necessary to restore the parties to a mutually beneficial relationship under this Agreement. In the event such negotiations fail to produce, within thirty (30) days following the original written notice of the occurrence this Agreement may be terminated by either party upon an additional sixty (60) days written notice to the other party.

Agency UT

V. INDEMNIFICATION

Each party to this Agreement agrees that if it is found to be without direct fault through the acts or omissions of its employees ~~or agents,~~ and is held liable for the acts or omissions of the other party's employees ~~or agents~~ solely arising out of their failure to provide medical care in accordance with the recognized standard of professional practice, its rights of contribution or indemnity as provided by the applicable laws for the State of Tennessee may be pursued in accordance with such laws. Further, each party agrees that the exclusive remedy for claims against the University under this section, if it accepts such jurisdiction, lies in the Tennessee Claims Commission. The liability of The MED (and its obligation to indemnify) is subject to the provisions of the Governmental Tort Liability Act, T.C.A. 29-20-101 *et. seq.*, and nothing in this Agreement shall be considered as extending or expanding the limitations on recovery allowed under actions brought against The MED that would otherwise be covered under that statute. ~~Notwithstanding the foregoing, to the extent any claims are brought against The MED for the acts or omissions of a Resident or Student under this Agreement under any theory of liability, including but not limited to, under the theory of actual or apparent agency, and including as well allegations of negligent supervision, then the University shall hold harmless The MED for such claims, and agrees to reimburse The MED for reasonable attorneys' fees and costs it incurs in defending said claims.~~ University's liability is governed by Tennessee Claims Commission Act 9-8-301.

Agency UT

Agency UT

VI. MISCELLANEOUS

A. Confidentiality.

1. Patient Records. The Parties shall maintain the confidentiality of all patient records and shall comply with all applicable federal, state, and local laws and regulations, Hospital and Medical Staff By-Laws, policies, and procedures regarding the confidentiality of medical records.

2. Privileged Information. Each party shall maintain the confidentiality of all information provided by any other party to which legal privilege may

apply. Each Party shall disclose privileged information only to personnel under its supervision and only on an as needed basis consistent with applicable law. All personnel of each Party shall be bound by the provisions of this Section, and each Party shall be responsible for informing personnel under its supervision of these requirements, as appropriate. No party shall be in breach of this Section solely by reason of its compliance with federal, state, or local law requiring disclosure of privileged information, provided that prior to any such disclosure such Party shall notify the other Party in writing of its intent to disclose such information, and shall permit the other Party a meaningful opportunity to assert any applicable privilege.

B. Risk Management and Quality Assurance. The Parties shall cooperate in risk management and quality assurance activities and shall exchange information for risk management and quality assurance purposes. Provided, however, nothing contained herein shall be construed as abrogating the attorney-client privilege or otherwise adversely affect the attorney-client relationship or any quality assurance/peer review activity, and provided further that each party shall take all reasonable steps to preserve any such applicable privilege.

C. Maintenance of Funding for GME. The Parties will work diligently to maintain Graduate Medical Education funding from state and federal sources. Any state or federal GME funds paid to the UNIVERSITY will be transferred to The MED based on annual negotiations.

D. Independent Contractor. In the performance of this Agreement, the UNIVERSITY and The MED are at all times acting as independent contractors. No party shall have or exercise control over the specific methods by which the other perform their duties under this Agreement.

E. Assignment and Subcontracting. This Agreement shall be binding and to the benefit of the Parties and their respective successors and assigns; provided, however that no Party my assign any of its interests, rights or obligations under this Agreement without the prior written consent of the other Party. No Party may subcontract for the performance of any of these duties under this Agreement without the prior written consent of the other Party. This provision shall not limit the right of any Party to engage individuals who may perform services under this Agreement; however each Party shall remain fully responsible for its performance as provided in this Agreement.

F. No Third Party Beneficiaries. None of the provisions of this Agreement are or shall be construed as for the benefit of or enforceable by any person not a Party to this Agreement.

G. Modification. This Agreement constitutes the entire agreement of the Parties with respect to its Resident and GME Services, and supersedes all prior agreements, representation, or communication, oral or written, relating thereto. This Agreement may not be modified except by a written amendment properly approved and executed by all Parties.

H. Waiver. No waiver, express or implied, of any breach of this Agreement shall constitute a waiver of any right under this Agreement or of any subsequent breach, whether of a similar or dissimilar nature.

I. HIPAA. The MED and the UNIVERSITY shall comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA), 45 C.F.R. Parts 160 & 164 Privacy and Security Laws as may be amended from time to time.

J. Severability. If any provision of this Agreement shall be unenforceable for any reason, the remaining portions shall remain in force and effect; provided, however, that if the removal of any such provision has the effect of materially altering the obligation of any Party so as to cause serious hardship to such Party or to cause such Party to act in violation of its Articles of Incorporation the party so affected shall have the right to terminate this Agreement upon thirty (30) days written notice to the other Party.

K. Governing Law. The Agreement shall be governed by the law of the State of Tennessee.

L. Related Parties and Subcontractor Requirements. Each party shall, upon proper request, allow the United States Department of Health and Human Services, the Comptroller General of the United States, the Tennessee Department of Health, the Tennessee Department of Finance and Administration, and their duly authorized representatives access to this Agreement and to all books, documents, and records necessary to verify the nature and extent of the costs of services provided by any party under this Agreement, at any time during the term of this Agreement and for an additional period of five (5) years following the last date services are furnished under this Agreement. If any party carries out any of its duties under this Agreement through an agreement between its and an individual or organization related to it, that party to this Agreement shall require that a clause be included in such agreement to the effect that until the expiration of five (5) years after the furnishing of services pursuant to such agreement, the related organization shall make available, upon request to the United States Department of Health and Human Services, the Comptroller General of the United States, the Tennessee Department of Health, the Tennessee Department of Finance and Administration, and their duly authorized representatives access to this Agreement and to all books, documents, and records necessary to verify the nature and extent of the costs of services provided by any party under this Agreement.

M. Equal Opportunity. The parties shall abide, to the extent applicable thereto, by the provisions of Titles VI and VII of the Civil Rights Act of 1964 (42 U.S.C. Sec. 2000e et seq., as amended), which prohibits discrimination against any employee or applicant for employment or recipient of services on the basis of race, religion, color, sex or national origin. The parties further agree to abide by Executive Order No. 11246, as amended, which prohibits discrimination on the basis of sex; the Age Discrimination in Employment Act, 29 U.S.C. Sec. 621 et seq., as amended, and 45 C.F.R. 90, which prohibits discrimination on the basis of age; Section 5045 of the Rehabilitation Act of 1973, 29 U.S.C. Sec. 701 et seq., which prohibits discrimination on the basis of handicap; and the Americans with Disabilities Act, 42 U.S.C. Sec. 12101 et seq., and 29 C.F.R. 1630, which provides that no qualified individual with a disability, by reason of such disability, shall be denied employment, excluded from participation in, or denied the benefits of services, programs or activities.

N. Binding Effect Upon Successors. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, executors, administrators, successors, legal representatives and assigns; provided that this provision shall not be construed as permitting assignment, substitution, delegation or other transfer of rights or obligations except strictly in accordance with the other provisions of this Agreement.

O. Integration. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof, and supersedes all prior agreements and understandings pertaining thereto. No covenant, representation or condition not expressed in this Agreement shall affect or be deemed to interpret, change or restrict the express provisions hereof unless reduced to writing and signed by both parties.

P. Exhibits, Etc. All exhibits and other documents attached to or to be delivered in connection with this Agreement are expressly made a part of this Agreement.

Q. Further Assurances. The parties shall execute and deliver all documents, provide all information and take or forbear from any action that may be reasonably necessary or appropriate to achieve the purposes of this Agreement.

R. Authorization. Each individual executing this Agreement does thereby represent and warrant to each other person so signing (and to each other entity for which another person may be signing) that he or she has been duly authorized to execute this Agreement in the capacity and for the entity set forth above such person's signature.

S. Execution by Counterpart. This Agreement may be executed separately or independently by the parties in counterpart, each of which together shall be deemed to have been executed simultaneously and for all purposes to be one instrument.

T. Force Majeure. Neither party shall incur any liability to the other party, nor shall either party be entitled to terminate this Agreement, if the performance by either party of its obligations under this Agreement is prevented or delayed by act of God, the public enemy, earthquakes, fires, epidemics, civil insurrections, curtailment of or failure to obtain sufficient electrical power, strikes, lockouts or similar unforeseen and unusual circumstances beyond the control and without the fault of such party. Any party claiming any such excuse for non-performance shall use its best efforts to avoid or remove such cause, shall continue performance to the degree possible and as soon as possible, and shall give prompt written notice to the other party of the situation.

U. Compliance with Applicable Laws. The parties shall comply with all applicable statutes, laws, rules, regulations, licenses, certificates and authorizations of any governmental body or authority in the performance of its obligations under this Agreement. This Agreement shall be subject to amendments to applicable laws and regulations relating to the subject matter hereof, but to the extent that any inconsistency is thereby created, the parties shall used their best efforts to accommodate the terms and intent of this Agreement and of such amendments. Each party shall obtain and maintain current and in force all licenses, certifications, authorizations and permits (and shall pay the fees therefor) required to carry out its obligations under this Agreement.

V. Notices. Unless otherwise specified in this Agreement, any notice, document, or other communication given, or made hereunder shall be sufficient in writing and shall be deemed given upon (a) hand delivery, (b) transmission by facsimile and oral confirmation of receipt, (c) deposit of the same in the United States registered or certified mail, first class postage and fee prepaid, and correctly addressed to the party for whom it is intended at the following addresses:

If to The MED:	Chief Medical Officer Regional Medical Center at Memphis 877 Jefferson Avenue Memphis, TN 38103
	Chief Legal Officer and General Counsel Regional Medical Center at Memphis 877 Jefferson Avenue Memphis, TN 38103
If to the UNIVERSITY:	Associate Dean GME 910 Madison Avenue Suite 1031 Memphis, TN 31863

Or at such other place or places as shall from time to time be specified in a notice similarly given. Each Party shall promptly notify the other Parties of any change of address.

W. Nondiscrimination. The parties hereto agree not to discriminate against any individual on account of race, relation, national origin, or handicap unrelated to the reasonable requirements of this Agreement.

X. Section Headings. Section Headings are for convenience only and shall not be construed as part of this Agreement.

Y. Dispute Resolution. Any controversy, dispute, or disagreement arising out of or related to this Agreement or the breach of this Agreement shall be settled in accordance within this provision. In the event a dispute arises between the parties, each party shall be obligated to meet and confer with the other in good faith, on reasonable notice and at a mutually agreeable location. The parties agree that if either party refused to participate in such a conference, or if such a conference fails to produces a mutually acceptable resolution of the dispute within a mutually acceptable time, either party may submit the matter to mediation. Such mediation will occur upon consent of the parties which consent may be withdrawn at any time.

Z. Compliance. The parties enter into this Agreement with the intent of conducting their relationship in full compliance with applicable state, local and federal law, including the Medicare/Medicaid anti-kickback/Fraud and Abuse provisions and the Stark Law. Notwithstanding any unanticipated effect of any provisions herein, neither party will intentionally conduct itself under the terms of this Agreement in a manner to constitute a violation of said statutes. UNIVERSITY agrees to cooperate fully with compliance efforts of THE MED designed to

comply with applicable federal and/or state statutory and regulatory requirements in accordance with THE MED's compliance plan, including, but not limited, adherence to the THE MED's Code of Conduct.

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the day and year first state above.

University of Tennessee
Anthony A Ferrara
Vice Chancellor, Finance and Operations

6.22.11
Date

Regional Medical Center
Reginald Coopwood, MD
Chief Executive Officer

6/17/2011
Date

Exhibit B - FY12
Supervision of Housestaff

January 12, 2011

Department	Speciality	# Residents	Faculty to Resident Ratio	# Faculty Supervising	AAMC Rate	Benefits at 30%	Annual Cost at 70%
Medicine	Allergy/Immunology	0.0	0.500	0.000	142,000.00	184,600.00	$ -
"	Cardiology	3.0	0.500	0.250	251,000.00	326,300.00	$ 57,102.50
"	Dermatology	2.0	0.500	1.000	223,000.00	289,900.00	$ 202,930.00
"	Endocrinology	1.0	0.500	0.250	149,000.00	193,700.00	$ 33,897.50
"	Gastroenterology	2.0	0.500	0.750	232,000.00	301,600.00	$ 158,340.00
"	Gen Internal Medicine	26.0	0.333	8.666	165,000.00	214,500.00	$ 1,301,199.90
"	Hematology/Oncology	1.0	0.500	0.250	206,000.00	267,800.00	$ 46,865.00
"	Infectious Disease	1.0	0.250	0.250	153,000.00	198,900.00	$ 34,807.50
"	Nephrology	1.0	0.500	0.500	180,000.00	234,000.00	$ 81,900.00
"	Pulmonology	3.0	0.500	0.500	185,000.00	240,500.00	$ 84,175.00
"	Rheumatology	1.0	0.500	0.250	155,000.00	201,500.00	$ 35,262.50
Neurology	Neurology	3.0	0.250	0.750	173,000.00	224,900.00	$ 118,072.50
Neurosurgery	Neurosurgery	3.0	0.250	1.250	445,000.00	578,500.00	$ 506,187.50
OB/GYN	OB/GYN	31.0	0.250	7.250	241,000.00	313,300.00	$ 1,589,997.50
Ophthalmology	Ophthalmology	2.5	0.250	0.630	235,000.00	305,500.00	$ 134,725.50
Orthopaedics	Orthopaedics	14.0	0.250	3.500	372,000.00	483,600.00	$ 1,184,820.00
Otolaryngology	Otolaryngology	2.0	0.250	0.500	283,000.00	367,900.00	$ 128,765.00
Dentistry	Oral Surgery*	3.0	0.250	0.000	-	-	$ 239,585.00
Pathology	Pathology	0.0	0.250	0.000	185,000.00	240,500.00	$ -
Pediatrics	Pediatrics	6.0	0.250	1.250	176,000.00	228,800.00	$ 200,200.00
Pediatrics	Neontology	3.0	0.250	1.250	-	-	$ -
Psychiatry	Psychiatry	3.0	0.250	0.750	143,000.00	185,900.00	$ 97,597.50
Radiology	Radiology	4.0	0.250	1.000	327,000.00	425,100.00	$ 297,570.00
Surgery	Surgery	20.0	0.250	3.750	303,000.00	393,900.00	$ 1,033,987.50
Surgery	Plastics Surgery	3.0	0.250	0.250	353,000.00	458,900.00	$ 80,307.50
Surgery	Critical Care Surgery	2.0	0.250	0.500	313,000.00	406,900.00	$ 142,415.00
Urology	Urology	2.0	0.250	0.500	303,000.00	393,900.00	$ 137,865.00
		142.5		35.796			$ 7,928,575.40

Rates reflect 2008 AAMC Associate Professor 50%ile, Southern Region. All Region data used when regional data not present.

* Assumes rate from previous schedules

MED_____

UT_____

Exhibit A

Memphis Based Resident Cost FY 2012

PGY I Level	Base Salary	FICA 7.65%	W. Comp 0.2500%	Unemp. 0.7750%	Health Ins.	Dis. & Life	Claims Comm.	ACGME Fee	License Exem.	Lab Coats	Criminal Checks	TB Titers	GME Admin	PGY Total	Res. #	Total Per Level
1	46,800.00	$3,580	$117	$362.70	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	63,084.90	162	10,219,753.80
2	48,500.00	$3,710	$121	$375.88	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	64,932.38	145	9,415,194.38
3	50,100.00	$3,833	$125	$388.28	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	66,671.18	138	9,200,622.15
4	51,800.00	$3,963	$130	$401.45	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	68,518.65	111	7,605,570.15
5	53,500.00	$4,093	$134	$414.63	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	70,366.13	71	4,995,994.88
6	55,200.00	$4,223	$138	$427.80	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	72,213.60	38	2,744,116.80
7	56,900.00	$4,353	$142	$440.98	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400	74,061.08	15	1,110,916.13
Average	$50,040	$3,828	$125	$388	$7,750	$600	$1,800	$400	$10	$200	$35	$30	$1,400		680	45,292,168.28

Amt/Resident $ 66,606.13

Notes: 1) The projected cost per resident is based upon the average amount of the Residents in Memphis rather than in the particular hospital.
2) The reason for this is that the PGY levels cannot be projected with precise accuracy.

Residents 142.5 $ 9,491,373.50

UT

MED

RESIDENT SUPERVISION

PROGRAM LETTERS OF AGREEMENT

In order to ensure residents receive appropriate educational experience under adequate supervision, a Program Letter of Agreement (PLA) will be updated and signed annually by the program director and site director for each participating site providing a required program assignment. The PLA will include the following information:

- identify faculty name/or general faculty group who teaches/supervises residents;
- specify their responsibilities for teaching, supervision, and formal evaluation of residents;
- specify the duration and content of the educational experience; and
- state that residents must abide by the policies of the site, the program, and the GMEC.

A copy of the PLA will be sent to and maintained in the GME office.

Individual programs must have specialty-specific supervision policies. Listings of procedural competencies by resident name and by program can be accessed on the GME Resident Supervision web page.

INSTITUTIONAL POLICY ON RESIDENT SUPERVISION

The following resident supervision policy has been approved by the Dean of the College of Medicine: http://www.uthsc.edu/GME/supervision.php. Development criteria were to promote patient safety, provide educational excellence, but maintain autonomy based on demonstrated education competence. The policy is effective in all training sites without regard to patient insurance status or time of day. Residents and faculty members in training programs under the auspices of ACGME will abide by the supervision and documentation schema as noted below.

University of Tennessee Graduate Medical Education Resident Supervision Policy

	Resident Activity	Resident Activity Description of Supervision		Documentation of Supervision Minimum Level *
A.	INPATIENT CARE	New Admission	Residents will notify departmental attending physician upon patient admission. The urgency of notification is based upon severity and acuity of patient. The departmental attending physician must see and evaluate the patient within one calendar day of admission.	Level # 2, Co-signature not sufficient

	Continuing Care	Departmental attending physician is personally involved in ongoing care.	Level #4
	Intensive Care	Because of the unstable nature of patients in ICUs, involvement of departmental attending physician is expected on admission and at least on a daily basis.	Level #4
	Hospital Discharge/ Transfer	The departmental attending physician must be involved in decision to discharge or transfer patient.	Level # 3 Discharge Summary Signature or Transfer Note Co-signature
B. OUTPATIENT CARE	New Patient Visit	The departmental attending physician must be present in the clinic. Every new patient must be seen by and/or discussed with the departmental attending physician.	Level # 2, Co-signature not sufficient
	Return Patient Visit	The departmental attending physician must be present in the clinic.	Level #4
	Clinic Discharge	The departmental attending physician will assure clinic discharge is appropriate.	Level #4
C. OPERATING / DELIVERY ROOM	The departmental attending physician must be notified prior to the scheduling of the procedure.	The departmental attending physician must physically be present, within the facility where the procedure occurs, for the major components of the procedure and degree of involvement documented.	Level A: Attending performing the procedure, assisted by resident Level B: Resident performing the procedure and the departmental attending physician is scrubbed Level C: Resident performing the procedure with the departmental attending physician not scrubbed, but present in Operating Room

			Level D: Resident performing the procedure with the departmental attending physician not scrubbed, but present in suite or facility Level E: Emergency Care – Immediate care is initiated to preserve life or prevent impairment. The procedure is initiated with the departmental attending physician contacted and in route
D. CONSULTATIONS (Inpatient, Outpatient and Emergency Department)	Departmental attending physician must supervise all consults.		Level #4 consistent with patient's condition and principles of graduated responsibility.
E. RADIOLOGY/ PATHOLOGY			All reports verified by departmental attending physician prior to release
F. EMERGENCY DEPARTMENT	Assigned Emergency Department Attending physician must be present in the emergency department and is the attending of record. Assigned Departmental attending physician must be involved in disposition of all patients. Patients to be admitted are then assigned to clinical Department Attending (see A.).		Level #4 consistent with patient's condition and principles of graduated responsibility.
G. ROUTINE BEDSIDE & CLINIC PROCEDURES			Level #4 consistent with patient's condition and principles of graduated responsibility as outlined on GME supervision web site http://www.uthsc.edu/GME/supervision.php.

H.	NON-ROUTINE, NON-BEDSIDE, NON-OR PROCEDURES	(e.g., Cardiac Cath, endoscopy, interventional radiology,etc)	The departmental attending physician must physically be present within the facility where the procedure occurs, for the major components of the procedure and degree of involvement documented.	Level A: Attending performing the procedure, assisted by resident Level B: Resident performing the procedure and the departmental attending physician is assisting Level C: Resident performing the procedure with the departmental attending physician not assisting, but present in suite. Level D: Resident performing the procedure with the departmental attending physician not assisting, but present in suite or facility. Level E: Emergency Care – immediate care is initiated to preserve life or prevent impairment. The procedure is initiated with the departmental attending physician contacted and in route.

*Level of Supervision Documentation

1. Departmental attending physician Note

2. Departmental attending physician Addendum to the resident's note (not a co-signature)

3. Departmental attending physician Co-signature implies that the departmental attending physician has reviewed the resident's note, and absent an addendum to the contrary, concurs with the content of the resident's note.

4. Resident Documentation of departmental attending physician supervision. (e.g., "I have seen and/or discussed the patient with my departmental attending physician, Dr. "X," who agrees with my assessment and plan.")

LETTER OF INTENT
TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the *Commercial Appeal* which is a newspaper of general
(Name of Newspaper)

circulation in Shelby and surrounding Counties, Tennessee on or before June 09, 2014 for one day.
(County) (Month / day) (Year)

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center, including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $5,800,000.00, including filing fee.

The anticipated date of filing the application is: June 13, 2014.

The contact person for this project is E. Graham Baker, Jr., (Contact Name) Attorney (Title)

who may be reached at: his office located at (Company Name) 2021 Richard Jones Road, Suite 120 (Address)

Nashville (City) TN (State) 37215 (Zip Code) 615 / 370-3380 (Area Code / Phone Number)

E. Graham Baker, Jr. (Signature) June 09, 2014 (Date) graham@grahambaker.net (E-mail Address)

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The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

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* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.

4. Major medical equipment involved.
5. Health services initiated or discontinued.
6. Estimated project costs.
7. For home health agencies, list all counties in proposed/licensed service area.

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

June 18, 2014

Mr. Graham Baker, Attorney
Anderson & Baker
2021 Richard Jones Road, Suite 120
Nashville, TN 37215

RE: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Mr. Baker,

This will acknowledge our June13, 2014 receipt of your Certificate of Need application for the establishment of an Outpatient Diagnostic Center (ODC), the acquisition of magnetic resonance imaging (MRI) equipment and the initiation of MRI services in approximately 5,275 gross square feet of leased space on the first floor of an existing medical office building at 6555 Quince Road in Memphis, TN.
Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 4:00 PM, June 25, 2014. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

1. **Section A, Applicant Profile, Item 4**

   Discussion of the proposed organizational and business relationships among the entities is noted. Are there any plans being considered to increase membership in the new applicant LLC with ownership in excess of 5% or greater? Please briefly discuss.

2. **Section A, Applicant Profile, Item 5**

   The applicant states that it is considering the possibility of hiring a management entity. However, given the significant start-up responsibilities outlined in the draft agreement, please briefly describe what plans are in place, if any, in obtaining support from the hospital in order to conduct start-up activities such as build-out oversight, insurance contracting, budgeting, etc.

3. **Section B, Project Description, Item 1**

   The executive summary with description of the project is noted.

   Please document the waiting time for MRI patients in the service area. Please describe the methodology used in determining the average time patients are waiting for MRI service.

Please include a brief description of the projected financial performance of the applicant LLC, including measures to be taken to ensure that the proposed ODC will be financially profitable and the expected timeframe for same.

The applicant states that the actual front end costs to support the project are $817,350. As such and as a new LLC with no financial operating history, what responsibility will the new LLC have for repayment and what are the general terms of same? How will this arrangement be documented (e.g promissory note, letter of agreement, etc)?

4. **Section B, Project Description, Item II.A.**

The response indicates that the ODC will occupy approximately 4,587 gross square feet on the first floor of the existing building or 5,275 of leased space after allocation for common areas. Review of the lease documents revealed that the building contains approximately 112,000 total rentable SF. Based on this amount, what percentage of the building is currently occupied and what is the composition of its tenants? In your response, please briefly describe the building. Suggested highlights include - # floors, year built, zoning classification, total # rental suites and list of tenants by medical service/specialty, and a brief description about other businesses or property owners near or adjacent to the proposed ODC.

The comparison of the applicant's share of the renovation cost ($249,000 @ $54.29 per square foot) to the square footage (SF) cost of hospital projects is noted. Although there have not been enough approved CON projects to identify construction costs by quartile for ODC projects, please compare the applicant's cost to the ODC projects in the table below in lieu of the hospital table you have provided on pages 14 and 35 of the application. In your response, it may be helpful to use the total estimated cost of the renovation for purposes of addressing how the applicant's project compares to recently approved ODC projects.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$1,235,500	$159.69
CN1103-008	795	$127,500	$160.38
CN1304-014	847	$$150,000	$177.10
CN1304-013	2,080	$520,000	$250.00
CN1203-014	5,320	$1,605,150	$301.72

5. **Section B, Project Description, Items 1I.B and II.C and Section C, Need, Item 6**

The tables on pages 13, 19 and 34 of the application identify multiple imaging modalities of the proposed ODC. It would be helpful to compare to the utilization of the imaging modalities of the hospital in 2012 and 2013. If any of the modalities are not presently offered at the hospital, please include a brief description of the need to expand those services at the proposed ODC.

6. **Section B, Project Description, Item 1I.E. 1.a.**

The applicant notes that it will lease 1.5 Tesla MRI unit totaling to approximately $2.1 million. It appears the quote will expire before the application can be heard in September, 2014. Please revise or provide an addendum such that the vendor's quote will be effective on the date of the hearing.

In addition, please include a discussion of the most common MRI procedure types that will be offered at the proposed ODC.

7. **Section B, Project Description Item III.A. and Item III.B**

According to the plot plan, the parking appears accessible to patients. Is this an improvement from current parking at the hospital by area residents?

The names of the streets that border the property are illegible. Please revise by providing a more legible plot plan in larger print.

Please address the public transportation available to area residents for travel to and from the proposed ODC from their principle residence of location. In your response, please provide an estimate of the percentage of patients that may require public transportation and identify the major bus routes to the facility. If possible, please provide a map showing the routes with drop off/pick–up stops closest to the proposed ODC.

8. **Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.)**

Please provide a response for each item of this standard as noted in the questions that follow:

Item 1(a): please briefly describe the methodology used to estimate MRI utilization that exceeds the minimum criteria of the standard.

Item 2: MRI utilization of the proposed ODC appears to be based on the hospital owner's MRI experience at its location at 877 Jefferson Ave in Memphis. As noted in the question for Section C, Need Item 3, HSDA records reflect that Shelby residents accounted for approximately 71% of total hospital MRI procedures in 2012 and 73% of total procedures in 2011. This falls below the 75% threshold for the standard. Please address this discrepancy in further detail.

Item4: please note that MRI utilization should be discussed in the response in lieu of the ODC's hours of operation. Please also note that HSDA Equipment Registry records are the source for MRI provider reports of utilization.

Item 7(c): while the hospital's protocols may apply to the proposed ODC, please describe in more detail what features pertain only to the applicant ODC. A copy of draft emergency protocols, including the plan for emergency patient transfers should be provided, if possible.

Item 7(d): what is the procedure for screening orders for medical necessity by radiologists of the ODC? What is the process for contacting referring physicians to resolve any concerns noted? Please discuss this criterion in more detail.

Item 7(e):
Department of Health rule for Outpatient Diagnostic Centers 1200-08-35-.04(9) states that "Each Outpatient Diagnostic Center shall have at all times a licensed physician who shall be responsible for the direction and coordination of medical programs." Please identify the name(s) of same for the proposed ODC, affirm that the physician(s) is licensed to practice medicine in Tennessee. If possible, a CV for the physician(s) would be helpful.

Please briefly describe the plan for imaging interpretation services by a licensed Tennessee physician(s). Will this be provided by staff physicians, by contract with radiologists, or some combination of same?

Item 7(f): is the hospital's MRI imaging department ACR accredited? Please briefly describe what is included in ACR accreditation, noting whether or not it applies equally, or in part, to the physicians, the facility, the equipment or all the above. If the MRI equipment applies, is the 1.5 Tesla MRI unit that will be acquired ACR accredited? Please clarify.

Item 7(g): a copy of a draft transfer agreement or letter of intent between the applicant and Regional One Health would be helpful for this response. Additionally, the applicant might comment on whether or not any other hospitals located closer to the proposed ODC are being considered as a potential emergency transfer facility. In your response, please affirm that the physician medical director will be an active member of the hospital(s) medical staff.

9. Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)

Item 1: It appears that the service area of the hospital is based on patient days. In lieu of same, please describe the service of the proposed ODC with MRI based on patient origin of the hospital's outpatient MRI service line or its outpatient imaging department.

Please also provide the requested utilization projected four years into the future using available population figures.

Item 2: as the applicant may be aware, there is additional MRI capacity being added to the service area based on LeBonheur Children's Hospital, CN1311-042A (outpatient department of hospital), Baptist Memorial Hospital for Women, CN1211-058A, and a pending application – West Tennessee Imaging, CN1403-008 (ODC with MRI). All 3 of these sites are within 6 miles of the proposed ODC. Based on this and other providers near the applicant, please discuss further why MRI capacity is not adequate or why special circumstances may apply to this project.

Item 3(c)(1): Please also briefly describe the responsibilities assigned to the medical director and/or on-site physicians for patient emergencies, such as handling of patient transfers in the event of an emergency.

10. Section C, Need, Item 3 (Service Area).

The applicant states that the proposed ODC's primary service area consists of Shelby County on the basis of similarity to the hospital's service area. However, HSDA records reflect that residents of Shelby County averaged approximately 71% of total hospital MRI procedures in 2012 and 73% in 2011. As such, it appears that the MRI service area may differ from the hospital's general outpatient service area based on the difference from the 80% within 20 minute driving time factor noted on page 11 and page 21 of the application. Given your comments on page 11 pertaining to the internal zip code patient analysis, please discuss and clarify in more detail.

Discussion of the new applicant ODC's proposed service area (Shelby County) appears to be based on its similarity to the service area of the hospital in terms of patient origin as measured by hospital admissions/discharges. However, review of HSDA records for MRI equipment revealed that Shelby County residents accounted for approximately 1,621 of or 39% of 4,131 total MRI procedures in 2013, 71% of 4,491 total hospital MRI procedures in 2012, and 73% of 3,927 total hospital MRI procedures in 2011.
Based on this data and the 17 mile distance between the hospital and the applicant ODC, it may be helpful to have an appreciation of the proposed ODC's service area based on proximity to both the hospital and the proposed ODC. As a suggestion, the applicant may wish to illustrate the hospital's MRI utilization using the following table or a variation of same that using only zip codes :

Patient Location of Residence	**MRI procedures of ODC (as a % of total)**	**MRI procedures of hospital (as a % of total)**
Shelby County – zip codes within 5 to 14 mile radius of ODC		
Shelby County – zip codes within 15 plus radius of ODC		
Shelby County –zip codes 15 miles or more from ODC		
Next highest county , etc		
Other States		
Total		

11. Section C. (Need) Item 4 (Socio-Demographic Information of the Service Area)

Your response to this item is noted. Please condense information provided in the response & attachments by completing the following table using data from the Department of Health website, Certificate of Need enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau:

Variable	Shelby County	Tipton County	*Service Area*	*Tennessee*
Current Year 2014, Age 65+				
Projected Year 2018, Age 65+				
Age 65+, % Change				
Age 65+, % Total				
2014 Total Population				
2018, Total Population				
Total Pop. % Change				
TennCare Enrollees				
TennCare Enrollees as a % of Total Population				
Median Age				
Median Household Income				
Population % Below Poverty Level				

12. Section C. (Need) Item 5.

The table in Attachment B.II.A.2 is noted. It would be helpful to (a) add the number of MRI unit(s) by provider to the table and (b) include estimated distances to the proposed applicant's ODC with MRI. Please also include the names of providers with recently approved but unimplemented certificates of need for MRI units.

Per review of the table provided in Attachment B.II.A.2 and HSDA records, please note that the MRI utilization of Shelby County providers was 110,952 total procedures in 2012 (approximately 99% of the 2,880 procedures/year MRI standard). Some updates have been provided to HSDA by area providers. As a reference, please see the table below. Please contact Alecia Craighead, Stat III, HSDA at 615-253-2782 to discuss revision of the table in the manner requested.

MRI Provider Utilization in Shelby County, 2010- 2013

Year	**# MRI units**	**Total MRI Procedures**	**Average per unit**	**As a % of 2880 MRI Standard**
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

- *Note: HSDA has not received reports from St Jude and Delta*

13. Section C, Need, Item 6

The methodology used to project utilization of the proposed ODC is noted. However, on pages 31 and 32, the MRI utilization of the hospital (Regional One Health located at 877 Jefferson Ave in Memphis), appears to differ from what has been reported to the HSDA Medical Equipment Registry. As a reference, please note the table below and clarify the discrepancies for the periods indicated

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

The applicant projects future need/demand for diagnostic services at the same rate that utilization of these services has increased at the hospital. According to HSDA records, the hospital's total inpatient and outpatient MRI utilization increased by approximately 5.2% between 2011 to 2013. This rate appears similar to the average rate of increase (6% per year) that is noted in your table on page 32. It also appears to be similar to the hospital's outpatient MRI rate of increase of 8% from 2,320 procedures in 2011 to 2,513 procedures in 2013 (hospital Joint Annual Report). Assuming an average 8% annual increase, the hospital's outpatient MRI volumes may reach approximately 2,715 OP procedures in 2014, 2,932 OP procedures in 2015 and 3,166 procedures in 2016 (applicant's first full year of operations). Based on this utilization, it is unclear how the hospital's outpatient volumes would provide the additional utilization to support the proposed ODC at the MRI amounts projected for Year 1 and Year 2. Please clarify.

In your response, it may also be helpful to quantify the impact to the hospital's MRI utilization by showing the amounts that are expected to shift to the proposed ODC (e.g. some # or percentage of inpatient and outpatient MRI procedures) and to identify the hospital's estimated MRI utilization in Year 1 and Year 2 of this project. Please complete the table below to help illustrate the MRI utilization trend of the applicant and the hospital:

Provider	2011	2012	2013	2014 (Est)	Year 1	Year 2
Applicant ODC						
Hospital						

Using the top 10 primary MRI common procedure terminology codes (CPT) illustrated in Attachment B.II.A.3, please add a comparison of the applicant's projected MRI utilization to the hospital's most recent 12-month MRI utilization. Please discuss the rationale for any significant differences by procedure type, such as those that may arise from new sources of referrals from physicians located near the proposed ODC at 6555 Quince Road.

Please complete the following table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix. Please briefly discuss any similarities/differences projected for the proposed ODC:

Regional One Health's MRI Payor Mix

Payor	Hospital MRI Procedures-2013	as a % total MRI Procedures	Applicant ODC MRI Procedures–Year 1	Applicant ODC as a % of total MRI Procedures
Medicare				
TennCare/Medicaid				
Commercial Insurance				
Private Pay /Other				
Total				

14. Section C. Economic Feasibility, Item 1 (Project Costs Chart)

The chart is noted. The comparison to hospital renovation projects is unclear given the difference between facilities. It would be helpful if the applicant could reference other similar projects of this type. As a suggestion, please contact Alecia Craighead for assistance.

The comments on page 13 about projected equipment & property costs are noted. To complement same for purposes of this item, please briefly describe the methodology used to identify the amounts of the imaging equipment and lease costs over the life of their leases and compare to their Fair Market Value amounts. In your response, please provide documentation of the Fair Market Value from both the equipment vendor and the MOB property owner (or document from real estate appraiser, if necessary).

The quote from the equipment vendor is noted, However, the quote is scheduled to expire in July 2014. Please note that the agreements between the parties must be in effect on the date that the application will be heard by HSDA (September 2014 at earliest).

Please briefly describe the responsibilities the contractor and the equipment vendor will have in preparing space in the proposed ODC for installation of the MRI equipment in accordance with all applicable safety and building codes.

15. Section C, Economic Feasibility, Item 4 (Historical Data Chart)

Given the applicant's relationship to the hospital owner, please provide a historical data chart for the hospital's MRI service and/or imaging department, if possible, for the most recent full 12-month fiscal year period.

16. Section C. (Economic Feasibility) Question 4 (Projected Data Chart)

Please also provide a Projected Data Chart for only the MRI service of the proposed ODC.

How many unduplicated patients and imaging procedures account for the $131,707 and $158,049 amounts projected for charity care of the full project in the first and second

years of the project (please provide for each service type of the ODC - MRI, CT, Ultrasound and Fluoroscopy).

Are the costs for imaging interpretation services by qualified physicians reflected in the Projected Data Chart? If so, please identify the amounts & briefly describe the arrangements that may apply. If not, please explain how physicians who provide imaging interpretation services will be compensated.

Since the imaging equipment will be leased, what is being depreciated in the chart at the rate of $100,703 per year (Item D.5)?

17. **Section C. (Economic Feasibility) Item 5 and Item 6.B**

Please note the updated HSDA chart for MRI and CT Gross Charges per Procedure/Treatment by quartiles for years 2010 through 2012 in the following table and compare to the gross charges of MRI and CT services of the proposed ODC:

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2012

Equipment Type	1st Quartile	Median	3rd Quartile
CT Scanner	$873.14	$1,735.22	$2,656.97
MRI	$1,580.35	$2,106.03	$3,312.48
Source: Medical Equipment Registry – 12/06/2013			

18. **Section C, Economic Feasibility, Item 10**

The alternatives are noted. Based on Regional Health One's participation in the proposed ODC, was any consideration given to sharing MRI services through a shared space arrangement with the hospital or entering into a shared arrangement with another existing MRI provider in Shelby County? Please clarify.

19. **Section C, Contribution to Orderly Development, Item 3.**

The staffing estimate of employees noted by the applicant on page 53 is approximately four (4) full time equivalents at an annual total combined base salary of $240,000. Adding benefits @ 35%, the total annual amount is approximately $324,000. When compared to an average projected salary and wage expense of approximately $571,200 in Year 1 increasing by 13.3% to $647,170 in Year 2, what staff account for the balance of the projected salary cost for the project? Please clarify.

20. **Development Schedule**

The schedule has an Agency hearing date of September 24, 2014. In reviewing the schedule further, it is unclear why the applicant would plan on completing the activities noted in items 1 – 6 of the schedule before the HSDA Agency meeting (activities include obtaining a building permit and beginning construction on 9/10/14). Please clarify.

Please revise & resubmit the schedule as a replacement page to the application. Note: please also change the hearing date on the schedule from November 2012 to September 2014.

> According to 68-11-1607(i), "The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and position emission tomography. The registration shall be in a manner and on forms prescribed by the agency and shall include ownership, location, and the expected useful life of such equipment. The first registration of all such equipment shall be on or before September 30, 2002. Thereafter, registration shall occur within ninety (90) days of acquisition of the equipment. All such equipment shall be filed on an annual inventory survey developed by the agency. The survey shall include, but not be limited to, the identification of the equipment and utilization data according to source of payment. The survey shall be filed no later than thirty (30) days following the end of each state fiscal year. The agency is authorized to impose a penalty not to exceed fifty dollars ($50.00) for each day the survey is late."

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." **For this application the sixtieth (60th) day after written notification is August 19, 2014. If this application is not deemed complete by this date, the application will be deemed void.** Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Re-submittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. ɔ 68-11-1607(d):

(1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.

(2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has

been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Jeff Grimm
HSD Examiner

Enclosure/PJG

SUPPLEMENTAL-#1

-Copy-

Regional One Health Imaging

CN1406-024

SUPPLEMENTAL #1
June 25, 2014
8:21 am

ANDERSON & BAKER
An Association of Attorneys

2021 RICHARD JONES ROAD, SUITE 120
NASHVILLE, TENNESSEE 37215-2874

ROBERT A. ANDERSON
Direct: 615-383-3332
Facsimile: 615-383-3480

E. GRAHAM BAKER, JR.
Direct: 615-370-3380
Facsimile: 615-221-0080

June 25, 2014

Jeff Grimm
Health Services Examiner
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Supplemental Information: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Jeff:

Enclosed are three (3) copies of responses to your supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,

E. Graham Baker, Jr.
/mp

Enclosures as noted

SUPPLEMENTAL #1
June 25, 2014
8:21 am

AFFIDAVIT

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Regional One Health Imaging, LLC (CN1406-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 25th day of June, 2014; witness my hand at office in the County of Davidson, State of Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC
My Commission expires July 3, 2017

NADEAU E. POTEET STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY

1. Section A, Applicant Profile, Item 4

Discussion of the proposed organizational and business relationships among the entities is noted. Are there any plans being considered to increase membership in the new applicant LLC with ownership in excess of 5% or greater? Please briefly discuss.

Response: There are no plans at present to "increase membership" in the LLC, but the ownership structure of the ODC will give Regional One Health this option in the future. Again, there are no current plans to do so.

2. **Section A, Applicant Profile, Item 5**

The applicant states that it is considering the possibility of hiring a management entity. However, given the significant start-up responsibilities outlined in the draft agreement, please briefly describe what plans are in place, if any, in obtaining support from the hospital in order to conduct start-up activities such as build-out oversight, insurance contracting, budgeting, etc.

Response: Regional One Health currently operates all of the diagnostic modalities at its site on Jefferson Street in downtown Memphis. As such, it currently has all of the staff and other resources, including experience, required for the startup of this ODC. Our existing diagnostic staff already performs all of the procedures planned for this ODC, and they also provide functions such as insurance contracting, budgeting, etc. American Program Management (APM") is our Project Manager in charge of build-out oversight for the ODC (APM is a very experienced health care facility project manager that is currently overseeing other projects at Regional One Health).

It is also very important to note that the draft agreement is just that: a draft agreement. Since the Applicant has not even made the decision to enter into a management agreement, the draft that is required (by CON instructions) to be submitted may not appropriately address any actual relationship that might develop in the future.

3. **Section B, Project Description, Item 1**

The executive summary with description of the project is noted.

Please document the waiting time for MRI patients in the service area. Please describe the methodology used in determining the average time patients are waiting for MRI service.

Response: Regional One Health currently has only one MRI unit located at the Regional Medical Center and serving inpatients, emergency room and trauma patients, and outpatients. Since 2011 and continuing to the present, this one MRI unit has operated at 150% of what HSDA defines as optimal "operating efficiency" and 125% of HSDA's definition of the volume "capacity" of one unit.

An internal review of logs and discussions with Regional One Health's Radiology Department schedulers, showed that initial wait times of up to 8 days to get an Outpatient MRI appointment at the Regional Medical Center are not unusual. This includes schedule wait times plus waits for insurance authorizations. In addition, once scheduled, many MRI Outpatients are "bumped" by ER/Trauma patients. If Trauma is extremely busy on a given day, all scheduled outpatient MRIs may get bumped. This may require that patients leave, reschedule for another day, and try again to obtain an MRI scan. This compounding factor of outpatients competing with ER/Trauma patients and inpatients for MRI slots can cause wait times to complete a routine, outpatient MRI scan to balloon to two (2) weeks or more.

We do not know what kind of wait times for MRI are experienced by other patients across the service area, since this data is not shared by other imaging centers. We only know the waits that are experienced by our patients. Nationally, a rule of thumb for good practice and service would be two to four days to schedule a routine MRI, with the wait time largely based on the time required to obtain insurance authorizations.

Please include a brief description of the projected financial performance of the applicant LLC, including measures to be taken to ensure that the proposed ODC will be financially profitable and the expected timeframe for same.

Response: The Applicant, through Regional One Health, conducted an internal analysis of diagnostic procedures (historic and current utilization, anticipated increase in utilization, costs, charges, etc.), coupled with an analysis of outpatient utilization of these procedures. This analysis resulted in the projections provided in the application. The projections result in a financially profitable operation in Years 1 and 2, as reported. Based on this analysis, the Applicant anticipates positive cash flow in years to come.

The applicant states that the actual front end costs to support the project are $817,350. As such and as a new LLC with no financial operating history, what responsibility will the new LLC have for repayment and what are the general terms of same? How will this arrangement be documented (e.g. promissory note, letter of agreement, etc)?

Response: The Applicant is 100% owned by Regional One Health, as reported in the application. The Owner will make a cash equity contribution to the project. J. Richard Wagers, Jr., Regional One Health's Sr. Executive Vice President and CFO, has furnished a letter attesting that Regional One Health has sufficient assets to implement this project (see *Attachment C.EF.2*).

(note...please see attached original letter from Mr. Wagers...a copy was included in the original filing...this is included at Attachment C.EF.2)

4. Section B, Project Description, Item II.A.

The response indicates that the ODC will occupy approximately 4,587 gross square feet on the first floor of the existing building or 5,275 of leased space after allocation for common areas. Review of the lease documents revealed that the building contains approximately 112,000 total rentable SF. Based on this amount, what percentage of the building is currently occupied and what is the composition of its tenants? In your response, please briefly describe the building. Suggested highlights include - # floors, year built, zoning classification, total # rental suites and list of tenants by medical service/specialty, and a brief description about other businesses or property owners near or adjacent to the proposed ODC.

Response: The existing building was constructed in the mid-90s, has 5 stories, and is currently occupied by office tenants. The current and planned usage of the building complies with existing zoning regulations (Zoned CA with a Planned Development overlay). The new owner is not renewing existing leases as they expire, and plans to convert the property to medical office and other health-related (e.g., ODC) space. The Applicant understands that Regional One Health has an initial lease of about 35,000 GSF. In time, the entire building will be subleased by healthcare entities (e.g., the ODC, physician's offices, etc.). At present, there are no medical tenants in the building. There is a lot of retail (grocery stores, strip-mall, gas stations, etc.) in the area.

The comparison of the applicant's share of the renovation cost ($249,000 @ $54.29 per square foot) to the square footage (SF) cost of hospital projects is noted. Although there have not been enough approved CON projects to identify construction costs by quartile for ODC projects, please compare the applicant's cost to the ODC projects in the table below in lieu of the hospital table you have provided on pages 14 and 35 of the application. In your response, it may be helpful to use the total estimated cost of the renovation for purposes of addressing how the applicant's project compares to recently approved ODC projects.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$ 1,235,500	$ 159.69
CN1103-008	795	$ 127,500	$ 160.38
CN1304-014	847	$ 150,000	$ 177.10
CN1304-013	2,080	$ 520,000	$ 250.00
CN1203-014	5,320	$ 1,605,150	$ 301.72

Response: Alecia Craighead at your office agrees with your comment that there have not been enough ODCs to identify average and/or quartile costs. With that said, our estimated project construction cost of $54.29 is much lower than the costs charted above.

Even when considering the fact that the Landlord will pay for additional Tenant Improvement as part of the lease, the combined (Landlord + Tenant) total renovation cost per GSF is only $164.29, which is in the mid-range for the other reported project costs listed above.

5. **Section B, Project Description, Items II.B and II.C and Section C, Need, Item 6**

The tables on pages 13, 19 and 34 of the application identify multiple imaging modalities of the proposed ODC. It would be helpful to compare to the utilization of the imaging modalities of the hospital in 2012 and 2013. If any of the modalities are not presently offered at the hospital, please include a brief description of the need to expand those services at the proposed ODC.

Response: Please see replacement pages 13, 19, and 34. The charts have been changed to include the requested information. The new chart is replicated below:

Outpatient Procedure	ODC Year 1	ODC Year 2	Hospital O/P 2012	Hospital O/P 2013
MRI	2,363	2,611	2,544	2,513
CT	1,545	2,237	10,830	11,893
All Other	8,671	10,247	38,525	35,915
Total Volume	**12,579**	**15,095**	**51,899**	**50,321**

6. **Section B, Project Description, Item II.E. 1.a.**

The applicant notes that it will lease [a] 1.5 Tesla MRI unit totaling to approximately $2.1 million. It appears the quote will expire before the application can be heard in September, 2014. Please revise or provide an addendum such that the vendor's quote will be effective on the date of the hearing.

Response: Please see *Supplemental B.II.E.3* with updated expiration date.

In addition, please include a discussion of the most common MRI procedure types that will be offered at the proposed ODC.

Response: A list of the 10 most common (highest volume) MRI procedures by CPT code for Regional One Health was included in the application as *Attachment B.II.A.3*. It is anticipated that the same (or very similar) most common MRI procedures at the ODC will be the same.

That chart shows the 10 most common MRI procedures anticipated are:

MRA Neck W/O
MRI Brain W/O & W/
MRI Joint Lower, LT, W/O
MRI Joint Lower, RT, W/O
MRI Joint Upper, RT, W/O
MRI Pelvis W/O & W/
MRI Spine Cervical W/O
MRI Spine Lumbar Spine W/O
MRI Spine Lumbar Spine W/O & W/
MRI Spine Thoracic W/O.

7. **Section B, Project Description Item III.A. and Item III.B**

According to the plot plan, the parking appears accessible to patients. Is this an improvement from current parking at the hospital by area residents?

Response: This is a vast improvement in current parking at the hospital. Hospital outpatients have to maneuver traffic in downtown Memphis to arrive at our hospital. Hospital parking is limited, and is also 2 blocks away from the hospital entrance. Once an outpatient arrives at the hospital, he/she has to check in and wait for the particular diagnostic procedure that is required. Due to increased inpatient, ER, and Trauma Center demands on our in-house diagnostic units, outpatient procedures are sometimes delayed. As described in the application, outpatients sometimes will not return for procedures due to this timing/delay problem.

When compared to having the procedure performed at our proposed ODC, travel to/from the site will be easier for outpatients, and there is ample parking at the site. In fact, there are plans to increase the number of parking spots available at the site, over and above what is shown on the existing plot plan.

The names of the streets that border the property are illegible. Please revise by providing a more legible plot plan in larger print.

Response: Please see attached *Replacement Attachment B.III.A.*

Please address the public transportation available to area residents for travel to and from the proposed ODC from their principle residence of location. In your response, please provide an estimate of the percentage of patients that may require public transportation and identify the major bus routes to the facility. If possible, please provide a map showing the routes with drop off/pick–up stops closest to the proposed ODC.

Response: The Applicant is unaware of any manner in which to estimate the percentage of patients that may require public transportation. Patient intake procedures do not include questions about transportation issues. The Applicant can state, however, that patient throughput will be much better at the ODC, as outpatients will have decreased wait times for diagnostic procedures.

Please see *Supplemental B.III.A.1*, which is a two-page attachment showing the MATA Route 57, which goes to Kirby Road.

8. **Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.)**

Please provide a response for each item of this standard as noted in the questions that follow:

Item 1(a): Please briefly describe the methodology used to estimate MRI utilization that exceeds the minimum criteria of the standard.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

Actual Expressed and Suppressed Demand For Outpatient MRI at The Regional Medical Center

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	**34.0%**	**10.5%**
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	**1,973**	**2,580**		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

	10.5% Historical CAGR Continues					
	If 2nd MRI Unit Were Available Now		PROJECTED			
			YR1	YR2	YR3	YR4
Assumptions	2013 BASE	Est. 2014	2015	2016	2017	2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	**1,935**	**2,138**	**2,363**	**2,611**	**2,885**	**3,188**

Item 2: MRI utilization of the proposed ODC appears to be based on the hospital owner's MRI experience at its location at 877 Jefferson Ave in Memphis. As noted in the question for Section C, Need Item 3, HSDA records reflect that Shelby residents accounted for approximately 71% of total hospital MRI procedures in 2012 and 73% of total procedures in 2011. This falls below the 75% threshold for the standard. Please address this discrepancy in further detail.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is

far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1.*

Item 4: Please note that MRI utilization should be discussed in the response in lieu of the ODC's hours of operation. Please also note that HSDA Equipment Registry records are the source for MRI provider reports of utilization.

Response: Please see *Replacement Attachment ODC.*

Item 7(c): While the hospital's protocols may apply to the proposed ODC, please describe in more detail what features pertain only to the applicant ODC. A copy of draft emergency protocols, including the plan for emergency patient transfers should be provided, if possible.

Response: The Applicant does not have a copy of draft emergency protocols, as this is a licensure issue with which we will comply if our CON application is approved. Obviously, in case of emergency, we will stabilize the patient and transfer to the nearest tertiary facility. As a controlled subsidiary of Regional One Health, the Applicant will be able to access hospital transfer agreements to other hospitals for emergencies. Therefore, there will be no separate transfer agreements for the Applicant.

Item 7(d): What is the procedure for screening orders for medical necessity by radiologists of the ODC? What is the process for contacting referring physicians to resolve any concerns noted? Please discuss this criterion in more detail.

Response: Once an order is send to the ODC, a pre-authorization individual will look at the order. If the order has the necessary ICD 9 codes to support the CPT code, then the procedure will be considered medically necessary. If the ICD 9 does not support the CPT code, then the physician office will be contacted to discuss the order and verify the medical necessity of the order with the referring office. If the order needs to be changed, then the referring physician will order the correct examination. If there is any question of the medical necessity, the Radiologist will then review the order and history. If the order or procedure needs further explanation, the Radiologist will contact the referring physician to discuss the medical necessity and the correct procedure to be ordered.

Item 7(e): Department of Health rule for Outpatient Diagnostic Centers 1200-08-35-.04(9) states that "Each Outpatient Diagnostic Center shall have at all times a licensed physician who shall be responsible for the direction and coordination of medical programs." Please identify the name(s) of same for the proposed ODC, affirm that the physician(s) is licensed to practice medicine in Tennessee. If possible, a CV for the physician(s) would be helpful.

Response: Dr. Sridhar "Sri" Shankar is our current medical director of medical imaging. His CV is attached as *Supplemental Specific MRI 7.e.*

Please briefly describe the plan for imaging interpretation services by a licensed Tennessee physician(s). Will this be provided by staff physicians, by contract with radiologists, or some combination of same?

Response: Interpretation of all images at the ODC will be provided by UTMG Radiologists. There will be a Professional Service Agreement between the Radiologist and the ODC.

Item 7(f): Is the hospital's MRI imaging department ACR accredited? Please briefly describe what is included in ACR accreditation, noting whether or not it applies equally, or in part, to the physicians, the facility, the equipment or all the above. If the MRI equipment applies, is the 1.5 Tesla MRI unit that will be acquired ACR accredited? Please clarify.

Response: Regional One Health, and therefore its radiology department, is JCAHO accredited. The Applicant, as a free-standing outpatient diagnostic center, will pursue ACR accreditation for specific modalities. ACR accredited modalities will include MRI, CT, US, and Mammography. Please see *Supplemental Specific MRI 7.f* for a synopsis of ACR accreditation procedures for these modalities.

Item 7(g): A copy of a draft transfer agreement or letter of intent between the applicant and Regional One Health would be helpful for this response. Additionally, the applicant might comment on whether or not any other hospitals located closer to the proposed ODC are being considered as a potential emergency transfer facility. In your response, please affirm that the physician medical director will be an active member of the hospital(s) medical staff.

Response: Obviously, in case of emergency, we will stabilize the patient and transfer to the nearest tertiary facility. As a controlled subsidiary of Regional One Health, the Applicant will be able to access hospital transfer agreements to other hospitals for emergencies. Therefore, there will be no separate transfer agreements for the Applicant. The medical director will be an active member of Regional One Health's medical staff.

9. **Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)**

Item 1: It appears that the service area of the hospital is based on patient days. In lieu of same, please describe the service of the proposed ODC with MRI based on patient origin of the hospital's outpatient MRI service line or its outpatient imaging department.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

Actual Expressed and Suppressed Demand For Outpatient MRI at The Regional Medical Center

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	**34.0%**	**10.5%**
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	**1,973**	**2,580**		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

		10.5% Historical CAGR Continues				
	If 2nd MRI Unit Were Available Now		PROJECTED			
			YR1	YR2	YR3	YR4
Assumptions	2013 BASE	Est. 2014	2015	2016	2017	2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	**1,935**	**2,138**	**2,363**	**2,611**	**2,885**	**3,188**

Please also provide the requested utilization projected four years into the future using available population figures.

Response: See chart above for these projections.

Item 2: As the applicant may be aware, there is additional MRI capacity being added to the service area based on LeBonheur Children's Hospital, CN1311-042A (outpatient department of hospital), Baptist Memorial Hospital for Women, CN1211-058A, and a pending application – West Tennessee Imaging, CN1403-008 (ODC with MRI). All 3 of these sites are within 6 miles of the proposed ODC. Based on this and other providers near the applicant, please discuss further why MRI capacity is not adequate or why special circumstances may apply to this project.

Response: The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting.

Utilization of MRIs in other locations and by other providers will not impact our need. In reference to the 3 projects noted above: (1) this facility is 16.8 miles from our proposed ODC, services at our ODC will not be directed at children only, and the Applicant will not provide services to anyone under 14 years of age; (2) services at our ODC will not target primarily women's services; and (3) that project is not for additional services, but is merely "moving" existing services to a new location.

Please see *Supplemental B.II.A.1.* The top chart adds requested mileage information from the various existing MRI units in Shelby County to the site of our proposed ODC. The bottom chart shows the CON-approved MRIs since 2012. Again, please note that the West Tennessee application (scheduled to be heard at the June, 2014 meeting of the HSDA) is not adding an MRI.

Also *Supplemental B.II.A.4* is a two-page chart of Health Care Providers that Utilize MRIs, as of 06/28/2013, which is the latest information from the HSDA website. Physical addresses from this document were utilized to compute approximate mileage differences from our proposed ODC. Again, we utilized Google Maps to estimate mileage.

Item 3(c)(1): Please also briefly describe the responsibilities assigned to the medical director and/or on-site physicians for patient emergencies, such as handling of patient transfers in the event of an emergency.

Response: The Medical Director will be responsible for the following:

- Appropriate staffing of professional services for the ODC
- Maintenance of optimal image quality for all modalities
- Monitoring patients undergoing examinations
- Provide stabilization of patients in the event of adverse reactions or patient emergencies
- Will arrange for transfer of patients to the nearest hospital if an emergency arises
- Will ascertain that appropriate emergency medical supplies are available and dated appropriately
- Will interact with physicians and patients if there are conflicts that arise or medical issues that arise in the course of interpretation of images
- Conduct appropriate "peer review" by regular, scheduled review of colleagues interpretations

10. **Section C, Need, Item 3 (Service Area).**

The applicant states that the proposed ODC's primary service area consists of Shelby County on the basis of similarity to the hospital's service area. However, HSDA records reflect that residents of Shelby County averaged approximately 71% of total hospital MRI procedures in 2012 and 73% in 2011. As such, it appears that the MRI service area may differ from the hospital's general outpatient service area based on the difference from the 80% within 20 minute driving time factor noted on page 11 and page 21 of the application. Given your comments on page 11 pertaining to the internal zip code patient analysis, please discuss and clarify in more detail.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1*.

Discussion of the new applicant ODC's proposed service area (Shelby County) appears to be based on its similarity to the service area of the hospital in terms of patient origin as measured by hospital admissions/discharges. However, review of HSDA records for MRI equipment revealed that Shelby County residents accounted for approximately 1,621 of or 39% of 4,131 total MRI procedures in 2013, 71% of 4,491 total hospital MRI procedures in 2012, and 73% of 3,927 total hospital MRI procedures in 2011.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1*.

Based on this data and the 17 mile distance between the hospital and the applicant ODC, it may be helpful to have an appreciation of the proposed ODC's service area based on proximity to both the hospital and the proposed ODC. As a suggestion, the applicant may wish to illustrate the hospital's MRI utilization using the following table or a variation of same that using only zip codes :

Patient Location of Residence	**MRI procedures of ODC (as a % of total)**	**MRI procedures of hospital (as a % of total)**
Shelby County – zip codes within 5 to 14 mile radius of ODC		
Shelby County – zip codes within 15 plus radius of ODC		
Shelby County –zip codes 15 miles or more from ODC		
Next highest county , etc		
Other States		
Total		

Response: Please see *Supplemental C.Need.1*, which shows the zip codes in Shelby County of those locations from which we anticipate our ODC patients. Note that this chart indicates three "service areas:" a primary service area, secondary service area, and other Shelby County service area. In effect, these are three sub-sets of our Primary Service Area (as defined in the CON application process), which is Shelby County.

11. **Section C. (Need) Item 4 (Socio-Demographic Information of the Service Area)**

Your response to this item is noted. Please condense information provided in the response & attachments by completing the following table using data from the Department of Health website, Certificate of Need enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau:

Variable	Shelby	Tipton	Svc Area	TN Total
65 + Pop. 2014	108,570	8,042	116,612	981,984
65+ Pop. 2018	124,946	9,367	134,313	1,102,413
Age 65+, % Change	15.1%	16.5%	15.2%	12.3%
Age 65+, % Total	13%	14%	13%	16%
Total Pop. 2014	943,812	63,865	1,007,677	6,588,698
Total Pop. 2018	954,012	67,545	1,021,557	6,833,509
Total Pop. % Change	1.1%	5.8%	1.4%	3.7%
TennCare Enrollees	229,280	11,681	240,961	1,207,604
TennCare Enrollees as a % of Total	24.3%	18.3%	23.9%	18.3%
Median Age	34.0	36.0		38.0
Median Household Income	44,705	51,847		43,314
Population % Below Poverty Level	19.7%	14.0%	19.3%	16.5%

Response: Although not in our primary service area, data for Tipton County was included in the above chart since it was requested by the reviewer. Our primary service area is Shelby County, even though patients from outside Shelby County will be seen if referred. See above chart.

12. Section C. (Need) Item 5.

The table in Attachment B.II.A.2 is noted. It would be helpful to (a) add the number of MRI unit(s) by provider to the table and (b) include estimated distances to the proposed applicant's ODC with MRI. Please also include the names of providers with recently approved but unimplemented certificates of need for MRI units.

Response: It is assumed the reviewer meant *Attachment B.II.A.1* (MRI Utilization), instead of *Attachment B.II.A.2* (CT Utilization). This chart was included in response to the application request for historic utilization of MRI units. Therefore, the utilization given was from the HSDA Medical Equipment registry for 2010 – 2013 (as of 06/28/13). The number of MRI unit(s) in 2012, by provider, is included on this chart. Utilization data for 2012 will not change. *Supplemental B.II.A.1* includes estimated distances to our proposed ODC. These distances are reported by Google Maps. The two approved MRIs referenced earlier are added to this attachment at the bottom of the page (obviously, with no utilization). *Supplemental B.II.A.4* is a printout of the equipment registry addresses from the HSDA, just in case the reviewer wants to know which addresses we utilized for comparing distances.

Per review of the table provided in Attachment B.II.A.2 and HSDA records, please note that the MRI utilization of Shelby County providers was 110,952 total procedures in 2012 (approximately 99% of the 2,880 procedures/year MRI standard). Some updates have been provided to HSDA by area providers. As a reference, please see the table below. Please contact Alecia Craighead, Stat III, HSDA at 615-253-2782 to discuss revision of the table in the manner requested.

MRI Provider Utilization in Shelby County, 2010- 2013

Year	# MRI units	Total MRI Procedures	Average per unit	As a % of 2880 MRI Standard
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

- *Note: HSDA has not received reports from St Jude and Delta*

Response: The Applicant agrees: with incomplete data, it appears the 2013 Shelby County average utilization per MRI unit cannot be computed.

The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting. Utilization of MRIs in other locations and by other providers will not impact our need.

13. Section C, Need, Item 6

The methodology used to project utilization of the proposed ODC is noted.

However, on pages 31 and 32, the MRI utilization of the hospital (Regional One Health located at 877 Jefferson Ave in Memphis), appears to differ from what has been reported to the HSDA Medical Equipment Registry. As a reference, please note the table below and clarify the discrepancies for the periods indicated.

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

Response: Unfortunately, there were MRI utilization reporting errors at Regional One Health that we discovered while preparing this application. After a fairly exhausting review, we believe that the numbers we reported in the application are correct (3,882, 4,412, 4,491, and 4,766 for years 2010 – 2013). We had a similar situation in the past with our outpatient surgery utilization, where one year was reported incorrectly on our JAR. The Department of Health officials who maintain JAR reports advised it was not important to update "old" JAR reports at that time. Therefore, we have made no effort to correct the JAR. The Applicant will revise any report as necessary to correct any errors we may have caused on the HSDA Equipment Registry Report.

The applicant projects future need/demand for diagnostic services at the same rate that utilization of these services has increased at the hospital. According to HSDA records, the hospital's total inpatient and outpatient MRI utilization increased by approximately 5.2% between (sic) 2011 to 2013. This rate appears similar to the average rate of increase (6% per year) that is noted in your table on page 32. It also appears to be similar to the hospital's outpatient MRI rate of increase of 8% from 2,320 procedures in 2011 to 2,513 procedures in 2013 (hospital Joint Annual Report). Assuming an average 8% annual increase, the hospital's outpatient MRI volumes may reach approximately 2,715 OP procedures in 2014, 2,932 OP procedures in 2015 and 3,166 procedures in 2016 (applicant's first full year of operations). Based on this utilization, it is unclear how the hospital's outpatient volumes would provide the additional utilization to support the proposed ODC at the MRI amounts projected for Year 1 and Year 2. Please clarify.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of <u>total demand</u> (Actual and Suppressed) for <u>routine</u> outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.

- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

Actual Expressed and Suppressed Demand For Outpatient MRI at The Regional Medical Center

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

Assumptions	If 2nd MRI Unit Were Available Now		10.5% Historical CAGR Continues PROJECTED			
	2013 BASE	Est. 2014	YR1 2015	YR2 2016	YR3 2017	YR4 2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	**1,935**	**2,138**	**2,363**	**2,611**	**2,885**	**3,188**

In your response, it may also be helpful to quantify the impact to the hospital's MRI utilization by showing the amounts that are expected to shift to the proposed ODC (e.g. some # or percentage of inpatient and outpatient MRI procedures) and to identify the hospital's estimated MRI utilization in Year 1 and Year 2 of this project. Please complete the table below to help illustrate the MRI utilization trend of the applicant and the hospital:

Provider	2011	2012	2013	2014 (Est)	Year 1	Year 2
Applicant ODC						
Hospital						

Response: Please see following chart:

Provider	2011	2012	2013	2014 (Est)	Year 1	Year 2
Applicant ODC					2,363	2,611
Hospital	4,412	4,491	4,766	4,600	3,365	3,365
Combined ODC & Hospital	4,412	4,491	4,766	4,600	5,728	5,976

Between 2012 and 2013, Inpatient MRIs at the Hospital increased by 16%, from 1,947 in 2012 to 2,235 scans in 2013. For the same period, MRIs referred from the Emergency/Trauma increased by 10% from 587 scans in 2012 to 648 in 2013. Inpatient MRI and Emergency/Trauma MRI

demand has been gradually crowding out routine Outpatient demand. When the proposed MRI unit at the ODC is open, continued growth in inpatient and emergency demand could be accommodated at the Hospital.

Despite these high historical MRI growth rates, for the chart above, we froze the Hospital's combined Inpatient and Emergency/Trauma MRIs at their actual 2013 levels of 2,901 procedures and added 25% of 2013 actual outpatient volume which would be expected to remain at the Hospital. By Year 2, average utilization of the two units is 2,988 MRI procedures which exceeds HSDA's target for operational efficiency.

Inpatients and emergency/trauma patients scanned at the Hospital are of higher intensity than routine outpatients. It takes significantly extra time to scan patients who may be on monitors, have IVs, etc. These patients tie up MRI resources, making them less available to the routine outpatients referred from the clinics. As shown in the previous table, even with the new unit at the ODC to provide for the majority of outpatient volumes, we expect to have very constrained capacity to accommodate growth.

- Using the top 10 primary MRI common procedure terminology codes (CPT) illustrated in Attachment B.II.A.3, please add a comparison of the applicant's projected MRI utilization to the hospital's most recent 12-month MRI utilization. Please discuss the rationale for any significant differences by procedure type, such as those that may arise from new sources of referrals from physicians located near the proposed ODC at 6555 Quince Road.

Response: We did not project MRI volumes by CPT code for our ODC. Our anticipated volumes were based on prior utilization and percentage of increase in total volumes. The only CPT illustrations noted were in response to the CON question that requested the most common MRI procedures by CPT code.

We do not expect a substantial difference in the MRI utilization mix of the ODC versus the routine outpatient utilization mix of the Hospital. Our objective is to accommodate excess utilization of our current MRI unit to be more responsive to our current patients and our current referring physicians. We have not considered utilization from new referral sources.

- Please complete the following table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix. Please briefly discuss any similarities/differences projected for the proposed ODC:

Regional One Health's MRI Payor Mix

Payor	Hospital MRI Procedures -2013	Hospital as a % total MRI Procedures	Applicant ODC MRI Procedures –Year 1	Applicant ODC as a % of total MRI Procedures
Medicare	326	18%	591	25%
TennCare/Medicaid	415	22%	591	25%
Commercial Insurance	259	14%	945	40%
Private Pay /Other (includes Shelby County Corrections)	864	46%	236	10%
Total	**1,865**	100%	**2,363**	100%
Estimated 2013 Suppressed Demand = Lost MRIs "NO-SHOWS" & "Referred But Never Scheduled"	715			
REVISED TOTAL OP MRI DEMAND of Regional One Health Patients	**2,580**			

Response: See chart above. Long waits to receive care and "bumping" of routine outpatient MRIs in favor of inpatients and Emergency/Trauma patients at the Hospital is assumed to be a particular deterrent to our referred MRI patients with reimbursement coverage. This has created suppressed demand among Regional One's patients. With Regional One's addition of the second MRI unit, it is projected that at least 75% of what had been MRI suppressed demand will be served at the Kirby ODC. It is projected that the payor mix for MRI at the ODC will differ from that of the hospital in several important ways:

- Medicare percentage is projected to be higher at the ODC compared to at the hospital. In addition to lowering the risks of long scheduling waits and "bumping," the ODC's convenient parking, easy canopied drop-off, and accessible location of imaging within the Kirby building in relation to parking is considered to be a "draw" for our older patients who avoid the Hospital's dark parking garages and long walks to reach the Hospital's Radiology Department.
- TennCare/Medicaid percentage is projected to be roughly the same. The difference is not material and is largely due to rounding in making projections.
- Commercial Insurance percentage is projected to be higher at the ODC largely due to the convenience of location, parking, and the priority given to the scheduling of outpatients and the capability of honoring scheduled routine MRIs.
- Private Pay/Other is projected to be lower at the ODC for several reasons:
  - Shelby County Corrections Department patients accounted for more than 100 outpatient MRIs in 2013. Prisoners will continue to be served at the Hospital which has the appropriate security facilities.

- While the ODC will be more convenient for patients with cars, the Center may be less accessible for some patients who rely on public transportation. These self-pay patients will continue to be served at the Hospital.
- Certain patients receiving care at the Clinics located in the Hospital may be scheduled for multiple tests and therapies on the same day, making an MRI downtown more convenient.
- The decanting of outpatient volumes from an overloaded MRI unit at the hospital to the new unit at the ODC will make scheduling these patients at the Hospital more convenient, timely, and responsive.

14. **Section C. Economic Feasibility, Item 1 (Project Costs Chart)**

The chart is noted. The comparison to hospital renovation projects is unclear given the difference between facilities. It would be helpful if the applicant could reference other similar projects of this type. As a suggestion, please contact Alecia Craighead for assistance.

Response: Alecia Craighead of your office agrees with your comment that there have not been enough ODCs to identify average and/or quartile costs. With that said, our estimated project construction cost of $54.29 is much lower than the costs charted above.

Even when considering the fact that the Landlord will pay for additional Tenant Improvement as part of the lease, the total cost per GSF is only $164.29, which is in the mid-range for the other reported project costs listed above.

The comments on page 13 about projected equipment & property costs are noted. To complement same for purposes of this item, please briefly describe the methodology used to identify the amounts of the imaging equipment and lease costs over the life of their leases and compare to their Fair Market Value amounts. In your response, please provide documentation of the Fair Market Value from both the equipment vendor and the MOB property owner (or document from real estate appraiser, if necessary).

Response: All of this information was included on page 20 of the application, and is replicated below. The Applicant made the logical assumption that the Purchase Price of the equipment would be the Fair Market Value. Please see following chart:

	Equipment	Purchase Price	Term (Mos)	Monthly Payment	Total Cost
MRI	Optima MR 450w	$1,069,686.95	84	$13,100.00	1,100,400
CT	Goldseal Brightspeed Elite 16	$306,350.99	60	$5,000.00	300,000
Mammo	Senographe Care	$280,910.85	60	$4,500.00	270,000
X-Ray	Goldseal Precision 500D	$315,000.00	60	$5,100.00	306,000
U/S	Logiq E9	$144,000.00	36	$3,600.00	129,600
	Package Pricing	**$2,115,948.79**		**$18,200.00**	**2,106,000**

The expected useful life of the above equipment is 7 to 10 years.

The quote from the equipment vendor is noted. However, the quote is scheduled to expire in July 2014. Please note that the agreements between the parties must be in effect on the date that the application will be heard by HSDA (September 2014 at earliest).

Response: Please see *Supplemental B.II.E.3.*

Please briefly describe the responsibilities the contractor and the equipment vendor will have in preparing space in the proposed ODC for installation of the MRI equipment in accordance with all applicable safety and building codes.

Response: Architectural programming and preliminary planning have been provided by American Program Management (APM"), an experienced healthcare Program Manager representing Regional One Health. The architect/engineer of record for the project is The Crump Firm of Memphis, Tennessee, an experienced healthcare designer charged with designing the project to comply with all applicable safety and building codes. Information provided by the equipment vendors will be incorporated into the Construction Documents and Specifications. The contractor will be responsible for all construction in accordance with the Construction Documents. Construction Administration services will be provided by the project manager, the architect, the engineer and APM's project manager.

15. Section C, Economic Feasibility, Item 4 (Historical Data Chart)

Given the applicant's relationship to the hospital owner, please provide a historical data chart for the hospital's MRI service and/or imaging department, if possible, for the most recent full 12-month fiscal year period.

Response: Unfortunately, the hospital does not compile information in the format requested. The hospital does not have, in effect, discreet outpatient financials for the imaging department and/or MRI utilization that would be comparable to what is proposed at the ODC. The hospital can track direct expenses for an entire department, such as inpatient, outpatient, and ER. However, the hospital does not track net operating revenue, indirect expenses, or income by department.

16. **Section C. (Economic Feasibility) Question 4 (Projected Data Chart)**

Please also provide a Projected Data Chart for only the MRI service of the proposed ODC.

Response: Please see attached *Supplemental MRI PDC* (Projected Data Chart for the MRI service for Years 1 and 2). Please note that this chart tracks revenue only, as there is no way to compute the expenses for MRI procedures, only. A comparison of this chart with the total project Projected Data Chart (already submitted) indicates that MRI procedures will account for approximately 54.6% of the gross revenue for this project. Making the assumption that MRI expenses will be the same percentage (and the Applicant does not make this assumption), Net Operating Income Less Capital Expenditures would be 54.6% of the total project's respective numbers, or, approximately $116, 463 and $24,611 in Years 1 and 2.

How many unduplicated patients and imaging procedures account for the $131,707 and $158,049 amounts projected for charity care of the full project in the first and second years of the project (please provide for each service type of the ODC - MRI, CT, Ultrasound and Fluoroscopy)?

Response: We computed charity care by a percentage of revenue (5%). Applying that percentage to the new utilization chart yields the following:

Outpatient Procedure	ODC Year 1	Charity Pts Yr1	ODC Year 2	Charity Pts Yr2
MRI	2,363	119	2,611	131
CT	1,545	78	2,237	112
All Other	8,671	434	10,247	513
Total Volume	**12,579**	**631**	**15,095**	**756**

Are the costs for imaging interpretation services by qualified physicians reflected in the Projected Data Chart? If so, please identify the amounts & briefly describe the arrangements that may apply. If not, please explain how physicians who provide imaging interpretation services will be compensated.

Response: It is anticipated we will have a Professional Services Agreement with UTMG. They will provide services for 18% of the gross collections minus the cost of billing. Global bills will be sent by the ODC. The percentage of collections allocated through the PSA will be reviewed every year and adjusted based on the technical and professional components of the Medicare fee schedule.

Since the imaging equipment will be leased, what is being depreciated in the chart at the rate of $100,703 per year (Item D.5)?

Response: This is the anticipated amortization of the $518,350 equipment that is being purchased (Please see Project Costs Chart, Item A.7).

17. **Section C. (Economic Feasibility) Item 5 and Item 6.B**

Please note the updated HSDA chart for MRI and CT Gross Charges per Procedure/Treatment by quartiles for years 2010 through 2012 in the following table and compare to the gross charges of MRI and CT services of the proposed ODC:

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2012

Equipment Type	1st Quartile	Median	3rd Quartile
CT Scanner	$873.14	$1,735.22	$2,656.97
MRI	$1,580.35	$2,106.03	$3,312.48
Source: Medical Equipment Registry – 12/06/2013			

Response: As reported in the application, there are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient: $ 555
Average Deduction/Patient $ 366
Average Net Charge/Patient $ 188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient: $ 1,794
Average Deduction/Patient $ 1,185
Average Net Charge/Patient $ 609.

In addition, it is projected that average patient charges for Year 1 (CT only) will be:

Average Gross Charge/Patient: $ 750
Average Deduction/Patient $ 495
Average Net Charge/Patient $ 255.

18. Section C, Economic Feasibility, Item 10

The alternatives are noted. Based on Regional Health One's participation in the proposed ODC, was any consideration given to sharing MRI services through a shared space arrangement with the hospital or entering into a shared arrangement with another existing MRI provider in Shelby County? Please clarify.

Response: No. The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting. Utilization of MRIs in other locations and by other providers will not impact our need.

19. Section C, Contribution to Orderly Development, Item 3.

The staffing estimate of employees noted by the applicant on page 53 is approximately four (4) full time equivalents at an annual total combined base salary of $240,000. Adding benefits @ 35%, the total annual amount is approximately $324,000. When compared to an average projected salary and wage expense of approximately $571,200 in Year 1 increasing by 13.3% to $647,170 in Year 2, what staff account for the balance of the projected salary cost for the project? Please clarify.

Response: The CON application requests FTE and salary information for "...all employees providing patient care for the project." (emphasis added). Therefore, only those employees (who provide patient care) were included in the salary and FTE charts. Administrative positions (manager, reception, etc.), not asked for in the application, account for the difference.

20. Development Schedule

The schedule has an Agency hearing date of September 24, 2014. In reviewing the schedule further, it is unclear why the applicant would plan on completing the activities noted in items 1 – 6 of the schedule before the HSDA Agency meeting (activities include obtaining a building permit and beginning construction on 9/10/14). Please clarify.

Response: Please see a revised Project Completion Forecast Chart.

Please revise & resubmit the schedule as a replacement page to the application. Note: please also change the hearing date on the schedule from November 2012 to September 2014.

Response: Please see a revised Project Completion Forecast Chart.

According to 68-11-1607(i), "The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and position emission tomography. The registration shall be in a manner and on forms prescribed by the agency and shall include ownership, location, and the expected useful life of such equipment. The first registration of all such equipment shall be on or before September 30, 2002. Thereafter, registration shall occur within ninety (90) days of acquisition of the equipment. All such equipment shall be filed on an annual inventory survey developed by the agency. The survey shall include, but not be limited to, the identification of the equipment and utilization data according to source of payment. The survey shall be filed no later than thirty (30) days following the end of each state fiscal year. The agency is authorized to impose a penalty not to exceed fifty dollars ($50.00) for each day the survey is late."

Response: As reported in the application, the Applicant will provide all data contemplated by this question.

In addition, please see attached tear sheet and affidavit for the public notice in the *Commercial Appeal*.

Regional One Health

June 11, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Regional One Health Imaging, LLC, owned by
Shelby County Health Care Corporation, d/b/a, Regional One Health

Mrs. Hill,

I am the Chief Financial Officer for Shelby County Health Care Corporation. Our latest financials, submitted with our Certificate of Need application, show that we have sufficient cash reserves to fund the $817,350 indicated cash portion of the project (plus working capital required to absorb start-up losses). While the project totals over $5.3 million, the balance of the project cost includes eleven years of facility rent and leasing/maintenance costs for medical equipment.

This is to notify you that our cash reserves are both available and dedicated to this project.

Please contact me if you have any questions.

Sincerely,

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO

already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

SUPPLEMENTAL #1
June 25, 2014
8:21 am

Anticipated utilization at the ODC will be as follows:

Outpatient Procedure	ODC Year 1	ODC Year 2	Hospital O/P 2012	Hospital O/P 2013
MRI	2,363	2,611	2,544	2,513
CT	1,545	2,237	10,830	11,893
All Other	8,671	10,247	38,525	35,915
Total Volume	**12,579**	**15,095**	**51,899**	**50,321**

The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

The Landlord and the Applicant will share in the costs necessary to renovate the existing space. The Applicant's portion of that cost will be $249,000. The Applicant has already incurred legal, administrative and consultant costs of approximately $50,000, and fixed equipment (but not diagnostic equipment) will cost an additional $518,350. The ODC will be located in a 4,587 GSF space, but common area allowances increase the amount of leased space to 5,275 GSF. The lease cost for the space ($1,392,600) exceeds the fair market value ("FMV") of the space (or, $1,151,532.50), to the higher lease cost is used in the Project Costs Chart. Diagnostic equipment (MRI, CT, Mammography, X-ray/Fluoroscopy, and Ultrasound equipment) will be leased. The purchase costs ($2,115,948.79) exceed the lease costs ($2,106,000.00) for the equipment, so the higher purchase cost for the equipment is used in the Project Costs Chart. Please note that equipment maintenance costs (included in the Project Costs Chart) are free in Year 1, but start up in the 2nd and succeeding years. Therefore, the Projected Data Chart will show more expenses in Year 2. Even so, we anticipate positive cash flow.

average of 2,823 procedures by the year 2015 when Regional One Health Imaging opens its facility.

- Other considerations: 1) MRI is supplanting Nuclear Medicine and X-ray as the imaging modality of choice for certain conditions; 2) Increasing population of aged individuals drives increased imaging; and 3) New screening options also drive volumes

► ***VOLUME PROJECTIONS FOR REGIONAL ONE IMAGING – AT KIRBY***

Anticipated utilization at the ODC will be as follows:

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Total Volume	**12,579**	**15,095**	**51,899**	**50,321**

Why An ODC With MRI at Kirby:

► ***Responsive service to existing patients is the primary goal:*** – To achieve this, Regional One is focused on:

- **Timely Access**: Adding and dedicating an MRI to Outpatients facilitates prompt scheduling
- **Convenience in Location**: Approximately 80% of Regional One's PSA population who require outpatient diagnostic services reside within a 20-Minute Drive-Time from Kirby. In addition, Kirby is close for SSA-East. More stats re: rest of service area including SSA-East
- **Ease of Access Once Arrived**: Getting downtown to the Regional Medical Center can be a frustrating experience. Once one arrives at the Medical Center, parking and walking time to get through the large downtown campus complex to get to Imaging can take another 15 minutes. Ample parking will be provided at the Kirby Building with convenient and quick access to the entryway of the building. Further, a covered porte cochere will be available for patient drop-off, further speeding access.

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GE
Healthcare Financial Services

June 24, 2014

Dr. Jeff Landman
Regional One Health
6555 Quince Road
Memphis, TN 38119

Dear Dr. Landman:

GE Healthcare Financial Services, a component of General Electric Capital Corporation ("GEHFS"), is pleased to submit the following proposal:

Contract Description: True lease of equipment.

Lessor: General Electric Capital Corporation, or one or more of its affiliates and/or assigns.

Lessee: Regional One Health

Equipment Description: GE Healthcare Diagnostic Imaging Equipment

Equipment Cost: $2,115,948.79

Term and Rental Payment Amount:

Product	Price	Term	Monthly Payment
Optima MR 450w	$1,069,686.95	84	$13,100.00
Goldseal Brightspeed Elite 16	$306,350.99	60	$5,000.00
Senographe Care	$280,910.85	60	$4,500.00
Goldseal Precision 500D	$315,000.00	60	$5,100.00
Logiq E9	$144,000.00	36	$3,600.00

Lease Rate on Equipment Cost:

Note: The lease rate and rental payment amounts have been calculated based on the Swap Rate (as defined below) and an assumption that, at the time of funding, the Swap Rate will be 1.80%. GEHFS reserves the right to adjust the lease rate and rental payment amounts if this is not the case, and/or if the lease commences after December 31, 2014, and/or for other changes in market conditions as determined by GEHFS in its sole discretion. As used herein, "Swap Rate" means the interest rate for swaps that most closely approximates the initial term of the lease as published by the Federal Reserve Board in the Federal Reserve Statistical Release H.15 entitled "Selected Interest Rates" currently available online at http://www.federalreserve.gov/releases/h15/update/ or such other nationally recognized reporting source or publication as GEHFS may specify.

End of Lease Options: Lessee shall, at its option, either purchase all (but not less than all) of the Equipment for its then fair market value, plus applicable taxes or return the Equipment to GEHFS.

Advance Rent: $0.00 due with signed contract. In no event shall any advance rent or advance charge or any other rent payments be refunded to Lessee. The Advance Rental will be applied as described in the lease.

Documentation Fee: A documentation fee of $Waived will be charged to Lessee to cover document preparation, document transmittal, credit write-ups, lien searches and lien filing fees. The documentation fee is due upon Lessee's acceptance of this proposal and is non-refundable. This fee is based on execution of our standard documents substantially in the form submitted by us. In the event significant revisions are made to our documents at your request or at the request of your legal counsel or your landlord or mortgagee or their counsel, the documentation fee will be adjusted accordingly to cover our additional costs and expenses.

Interim Rent: If the lease commencement date is not the 1st or 15th of any calendar month (a "Payment Date"), interim rent may be assessed for the period between the lease commencement date and the Payment Date.

Required Credit Information:

1. Two years fiscal year end audited/un-audited financial statements and comparative interim statements; or tax returns and business plan.
2. Such additional information as may be required.

SUPPLEMENTAL #1

June 25, 2014
8:21 am

Proposal Expiration: This proposal and all of its terms shall expire on December 31, 2014 if GEHFS has not received Lessee's signed acceptance hereof by such date. Subject to the preceding sentence, this proposal and all of its terms shall expire on December 31, 2014 if the lease has not commenced by such date.

The summary of proposed terms and conditions set forth in this proposal is not intended to be all-inclusive. Any terms and conditions that are not specifically addressed herein would be subject to future negotiations. Moreover, by signing the proposal, the parties acknowledge that: (i) this proposal is not a binding commitment on the part of any person to provide or arrange for financing on the terms and conditions set forth herein or otherwise; (ii) any such commitment on the part of GEHFS would be in a separate written instrument signed by GEHFS following satisfactory completion of GEHFS' due diligence, internal review and approval process (which approvals have not yet been sought or obtained); (iii) this proposal supersedes any and all discussions and understandings, written or oral between or among GEHFS and any other person as to the subject matter hereof; and (iv) GEHFS may, at any level of its approval process, decline any further consideration of the proposed financing and terminate its credit review process. Lessee hereby acknowledges and agrees that GEHFS reserves the right to syndicate (via a referral, an assignment or a participation) all or a portion of the proposed transaction to one or more banks, leasing or finance companies or financial institutions (a "Financing Party"). In the event GEHFS elects to so syndicate all or a portion of the proposed transaction (whether before or after any credit approval of the proposed transaction by GEHFS) and is unable to effect such syndication on terms satisfactory to Lessee and/or GEHFS, GEHFS may, in its discretion, decline to enter into, and/or decline any further consideration of, the proposed financing. Lessee hereby further acknowledges and agrees that; in connection with any such syndication, GEHFS may make available to one or more Financing Parties any and all information provided by or on behalf of Lessee to GEHFS (including, without limitation, any third party credit report(s) provided to or obtained by GEHFS).

Except as required by law, neither this proposal nor its contents will be disclosed publicly or privately except to those individuals who are your officers, employees or advisors who have a need to know as a result of being involved in the proposed transaction and then only on the condition that such matters may not be further disclosed. Nothing herein is to be construed as constituting tax, accounting or legal advice by GEHFS to any person.

You hereby authorize GEHFS to file in any jurisdiction as GEHFS deems necessary any initial Uniform Commercial Code financing statements that identify the Equipment or any other assets subject to the proposed financing described herein. If for any reason the proposed transaction is not approved, upon your satisfaction in full of all obligations to GEHFS, GEHFS will cause the termination of such financing statements. You acknowledge and agree that the execution of this proposal and the filing by GEHFS of such financing statements in no way obligates GEHFS to provide the financing described herein. By signing below, you hereby consent to and authorize GEHFS to perform all background, credit, judgment, lien and other checks and searches as GEHFS deems appropriate in its sole credit judgment.

We look forward to your early review and response. If there are any questions, we would appreciate the opportunity to discuss this proposal in more detail at your earliest convenience. Please do not hesitate to contact me directly at 615-854-3687.

Sincerely yours,

Don Diffendorf

Donald Diffendorf
Vice President
GE Healthcare Financial Services,
a component of General Electric Capital Corporation

Acknowledged and Accepted:

_____
(Legal Name)

By: _____

Title: _____

Date: _____

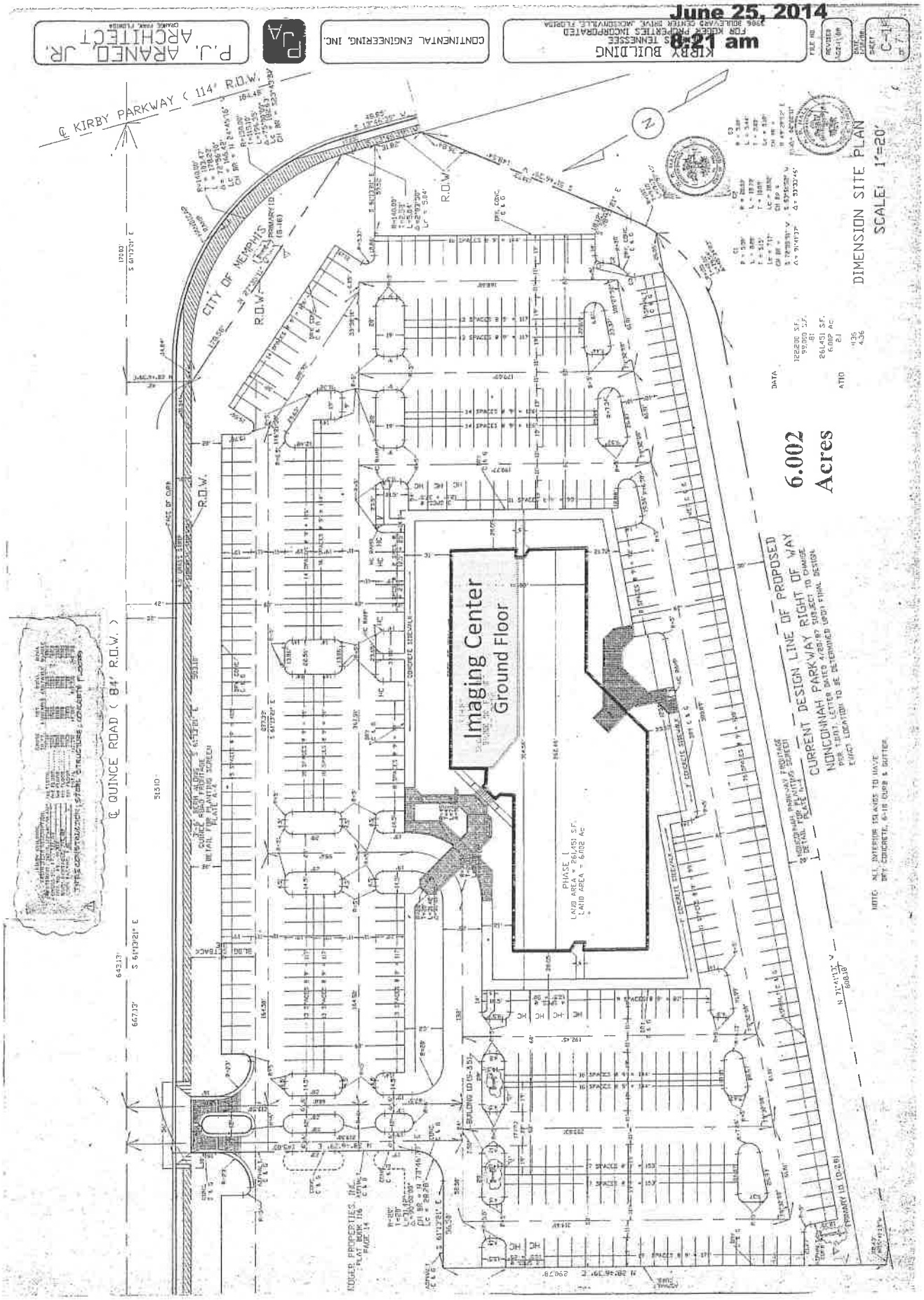
Fed. ID #: _____

Replacement Attachment B.III.A

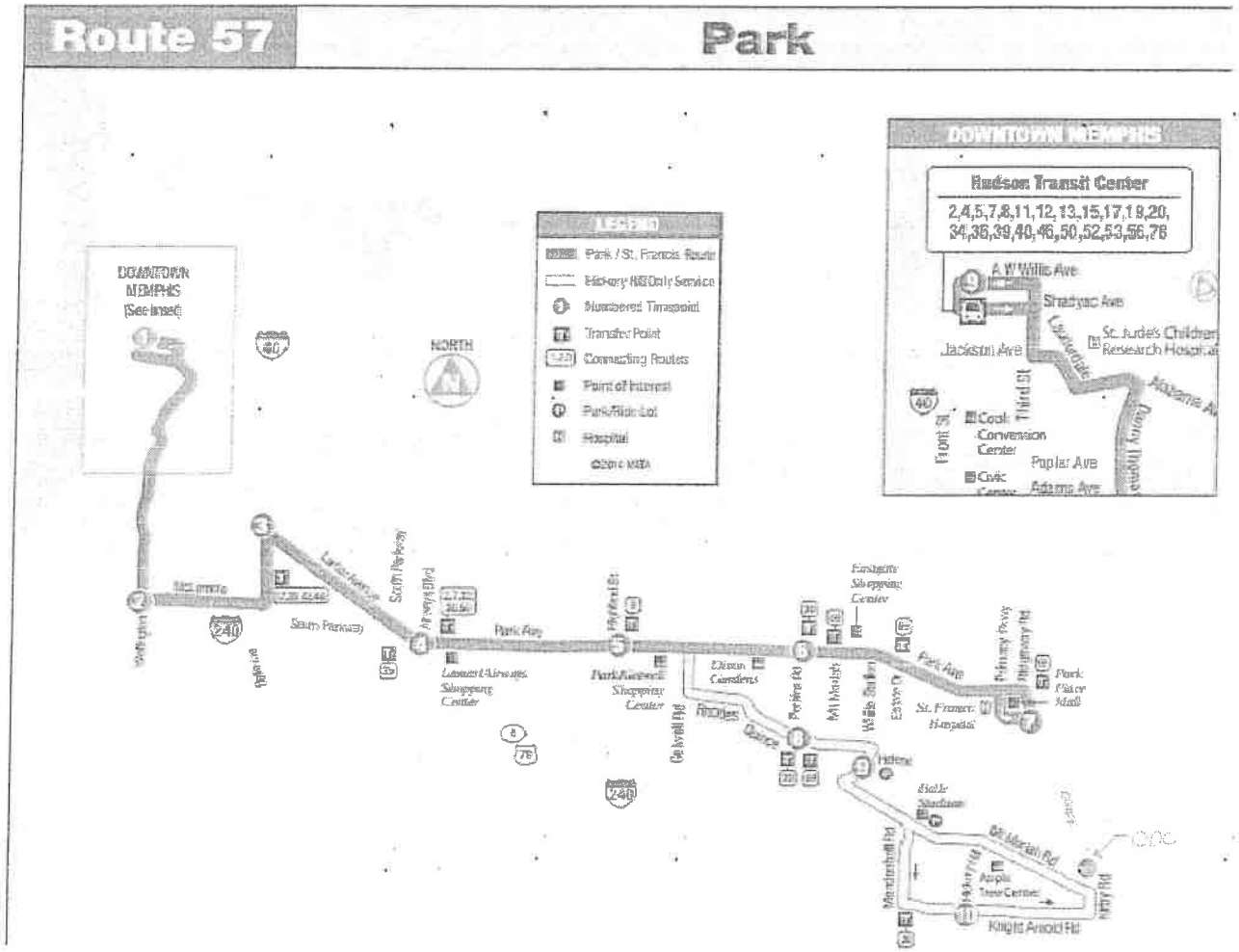
SUPPLEMENTAL #1

June 25, 2014

8:21 am

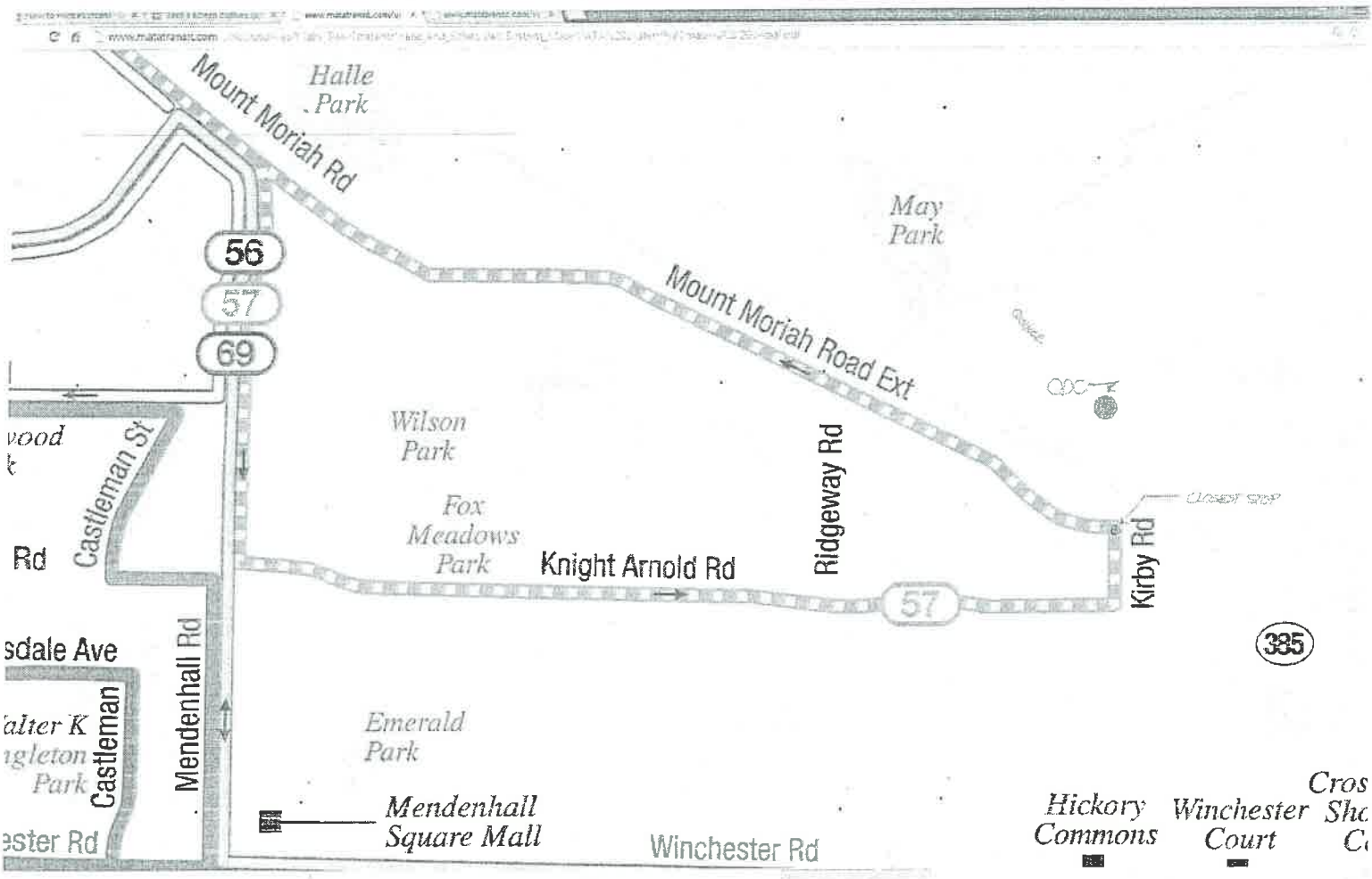


Route 57 Park



SUPPLEMENTAL #1

June 25, 2014
8:21 am



OUTPATIENT DIAGNOSTIC CENTERS

1. **The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.**

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

Actual Expressed and Suppressed Demand
For Outpatient MRI
at The Regional Medical Center

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

		10.5% Historical CAGR Continues				
	If 2nd MRI Unit Were Available Now		PROJECTED			
			YR1	YR2	YR3	YR4
Assumptions	2013 BASE	Est. 2014	2015	2016	2017	2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	1,935	2,138	2,363	2,611	2,885	3,188

2. **Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.**

Response: The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

3. **Any special needs and circumstances:**

   a. **The needs of both medical and outpatient diagnostic facilities and services must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

   b. **Other special needs and circumstances, which might be pertinent, must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients

SUPPLEMENTAL #1

Supplemental Specific MRI 7.e

June 25, 2014

8:21 am

Sridhar Shankar, MD

Specialty: Radiology

Locations:

Memphis Medical Center
Radiology
865 Jefferson, Chandler F150
Memphis, Tennessee 38103-2807
Office: 901-448-6110
Fax: 901-302-2475

Certification(s): Dr. Shankar is board certified by the American Board of Radiology.

Medical Degree: Calcutta University, Bankura Medical College, Bankura, West Bengal, India

Internship: Calcutta University, Bankura Medical College, Bankura, West Bengal, India

Residency: (Radiodiagnosis and Imaging) Postgradulate Institue of Medical Education and Research, Chandigarh, India

Fellowship: (Interventional MRI) Brigham and Women's Hospital, Boston, Massachusetts; (Oncoradiology) Dana-Farber Cancer Institute, Boston, Massachusetts

Special Interest:

- Diagnostic Radiology
- Interventional Radiology
- MRI - Magnetic Resonance Imaging
- Oncoradiology
- Tumor ablation- radiofrequency and cryo ablation
- Ultrasound

Professional Memberships:

- American College of Radiology
- Radiological Society of North America
- Society of Radiologists in Ultrasound

Additional Information:

- Fellows Education Award, Harvard Medical School
- Co-author and author of over 80 medical publications, presentations, lectures, abstracts, and book chapters on radiology
- Peer reviewer for several medical journals
- Extensive teaching and academic/research experience

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The MRI Accreditation Program evaluates the qualifications of personnel, the quality control program, MR safety policies and image quality specific to MRI. All providers that bill for MRI under part B of the Medicare Physician Fee Schedule must be accredited in order to receive technical component reimbursement from Medicare.

Program Requirements

It is required that you carefully read the Diagnostic Modality Accreditation Program Overview for a summary of the accreditation process and the modality-specific program requirements before applying for accreditation.

Diagnostic Modality Accreditation Program Overview
MRI Accreditation Program Requirements
New! Expedite the Accreditation Process with Electronic Image Submission!

Electronic image submission is now available for CT and MRI facilities! When completing the accreditation application, select "electronic" for the type of submission. This new option will reduce the turnaround time for accreditation image review. For more information, click the link below for User Instructions for Electronic Submission of Images.

User Instructions for Electronic Submission of Images

Frequently Asked Questions (FAQ)

MRI Accreditation Program FAQ
ACR CT, MRI, Nuclear Medicine and PET Accreditation Program Requirements for Medical Physicists/MR Scientists

Apply for Accreditation

An online accreditation system is available for the MRI Accreditation Program. Existing facilities that have already applied with the ACR for this program should access the system for the first time by following the steps in the account activation document below. Facilities applying for MRI for the first time can follow the link to the online system and click the link to "register" for an account.

Instructions to activate the account for a facility that has previously applied with the ACR for MRI or Breast MRI
Access the online accreditation system

Testing and QC Forms

Facilities that have applied for the MRI Accreditation Program will read these documents and use the forms to gather data that will be entered into the online testing package before the images are sent for review. **Please note that these forms should not be submitted to the ACR for accreditation.**

Clinical Image Quality Guide
Testing Instructions (Updated 1/17/14)
Quality Assurance Questionnaire
Clinical Data Form
DesAcc Order Form (Updated 1/17/14)
Large Phantom Order Form (Updated 1/21/14)
Large Phantom Instructions
Large Phantom Guidance
Large Phantom Data Form
Small Phantom Order Form (Updated 1/21/14)
Small Phantom Instructions
Small Phantom Guidance

Small Phantom Data Form
Checklist
Weekly QC Form
Weekly Laser QC Form
Weekly Visual Checklist

Toolkit for Site Visits

The Medicare Improvements for Patients and Providers Act (MIPPA) calls for all providers of CT, MRI, breast MRI, nuclear medicine, and PET exams that bill under Part B of the Medicare Physician Fee Schedule to be accredited by Jan. 1, 2012, in order to receive payment for the technical component of these services. Currently, the CMS/MIPPA mandates apply to ***outpatient facilities only, NOT to hospitals***. Per MIPPA, the ACR will perform unannounced site surveys to validate compliance with accreditation criteria. The ACR strongly advises that sites use the documents below to gather and organize their information for these site surveys.

Toolkit for Practice Sites
CME/Continuing Experience Record for Physicians
CME/CEU Record for Medical Physicists/MR Scientists
CEU Record for Technologists

Related Products

CPI Body MRI Special Edition 2011

Radiologists will enjoy a self-assessment module created by subspecialty experts. Study images, ques...

Learn more

6th Annual Body MR
6/23/2012

ACCREDITATION LOGIN

Log in to access the online accreditation system.

CONTACT US

Phone 800-770-0145
Fax 703-390-9834
Email mri@acr.org

ACR MRI Accreditation Program
1891 Preston White Dr
Reston, VA 20191

FREE ACCREDITATION PRESENTATIONS

June 18, 2014, Accreditation Update Webinar
Breast MRI Accreditation Presentation
CT Accreditation Presentation
Nuclear Medicine/PET Accreditation

Presentation

SUPPLEMENTAL #1
June 25, 2014
8:21 am

RELATED RESOURCES

- MRI Terminology Glossary
- MR Safety Resources
- MRI Quality Control Manual
- Accreditation Newsletters

RELATED PRODUCTS

Emergency Imaging for the General Radiologist May 19-21, 2014

View Details

CME for Journal JACR14, 6June

View Details

CPI Pediatric Radiology Module 2008

View Details

MARKET YOUR FACILITY

Is your facility already accredited? Our marketing resources are customized by modality.

Access Your Marketing Toolkit

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8:21 am

The CT Accreditation Program involves the acquisition of clinical and phantom images, dose measurements and the submission of scanning protocols. Providers that bill under part B of the Medicare Physician Fee Schedule must be accredited in order to receive technical component reimbursement from Medicare.

Program Requirements

It is required that you carefully read the Diagnostic Modality Accreditation Program Overview for a summary of the accreditation process and the modality-specific program requirements before applying for accreditation.

Diagnostic Modality Accreditation Program Overview
CT Accreditation Program Requirements **(Updated 11-18-13)**
New! Expedite the Accreditation Process with Electronic Image Submission!

Electronic image submission is now available for CT and MRI facilities! When completing the accreditation application, select "electronic" for the type of submission. This new option will reduce the turnaround time for accreditation image review. For more information, click the link below for User Instructions for Electronic Submission of Images.

User Instructions for Electronic Submission of Images

Frequently Asked Questions (FAQ)

CT Accreditation Program FAQ
CT QC Manual FAQs - **NEW 8-16-13**
ACR CT, MRI, Nuclear Medicine and PET Accreditation Program Requirements for Medical Physicists/MR Scientists

Apply for Accreditation

An online accreditation system is available for the CT Accreditation Program. Existing facilities that have already applied with the ACR for this program should access the system for the first time by following the steps in the account activation document below. Facilities applying for CT for the first time can follow the link to the online system and click the link to "register" for an account.

- Instructions to activate the account for a facility that has previously applied with the ACR for CT
  Access the online accreditation system

Testing and QC Forms

Facilities that have applied for the CT Accreditation Program will read these documents and use the forms to gather data that will be entered into the online testing package before the images are sent for review. **Please note that these forms should not be submitted to the ACR for accreditation.**

Clinical Image Quality Guide
Testing Instructions
Quality Assurance Questionnaire
Clinical Test Image Data Form
DesAcc Order Form
Phantom Order Form **(Updated 11-12-13)**
Phantom Testing Instructions
Testing Materials Checklist- **NEW 8-21-13**
CTAP Phantom Data/Dose Forms
2012 CT Quality Control Manual

Daily Technologist QC Form
Visual Checklist Form (Updated 11-18-13)
Laser Printer QC Form
CT QC Manual Summary Form - NEW 1-18-13

Toolkit for Site Visits

The Medicare Improvements for Patients and Providers Act (MIPPA) calls for all providers of CT, MRI, breast MRI, nuclear medicine, and PET exams that bill under Part B of the Medicare Physician Fee Schedule to be accredited by Jan. 1, 2012, in order to receive payment for the technical component of these services. Currently, the CMS/MIPPA mandates apply to ***outpatient facilities only, NOT to hospitals***. Per MIPPA, the ACR will perform unannounced site surveys to validate compliance with accreditation criteria. The ACR strongly advises that sites use the documents below to gather and organize their information for these site surveys.

Toolkit for Practice Sites
CME/Continuing Experience Record for Physicians
CME/CEU Record for Medical Physicists/MR Scientists
CEU Record for Technologists

ACCREDITATION LOGIN

Log in to access the online accreditation system.

LOGIN

CONTACT US

Phone 800-770-0145
Fax 703-390-9834
Email ctaccred@acr.org

ACR CT Accreditation Program
1891 Preston White Dr
Reston, VA 20191

FREE ACCREDITATION PRESENTATIONS

June 18, 2014, Accreditation Update Webinar
Breast MRI Accreditation Presentation
CT Accreditation Presentation
Nuclear Medicine/PET Accreditation Presentation

IMAGE WISELY®

Pledge and get resources on radiation safety in adult medical imaging.

Visit Image Wisely

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RELATED PRODUCTS

CPI Neuroradiology Module 2013

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CT Quality Control Manual

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CME for Journal JACR12_10OCT

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MARKET YOUR FACILITY

Is your facility already accredited? Our marketing resources are customized by modality.

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June 25, 2014
8:21 am

The Ultrasound Accreditation Program involves the acquisition of clinical images, submission of relevant physician reports corresponding to clinical images submitted, and quality control documentation.

Program Requirements

It is required that you carefully read the Diagnostic Modality Accreditation Program Overview for a summary of the accreditation process and the modality-specific program requirements before applying for accreditation.

- Diagnostic Modality Accreditation Program Overview
- Ultrasound Accreditation Program Requirements **(Revised: 4/10/14)**
- New! Expedite the Accreditation Process with Electronic Image Submission!

Electronic image submission is now available for Ultrasound facilities! When completing the accreditation application, select "electronic" for the type of submission. This new option will reduce the turnaround time for accreditation image review. For more information, see the User Instructions for Electronic Submission of Images.

Frequently Asked Questions (FAQ)

- Ultrasound Accreditation Program FAQ
- Quality Control FAQ **(Revised: 3/28/14)**

Apply for Accreditation

An online accreditation system is available for the Ultrasound Accreditation Program. Existing facilities that have already applied with the ACR for this program should access the system for the first time by following the steps in the account activation document below. Facilities applying for ultrasound for the first time can follow the link to the online system and click the link to "register" for an account.

- Instructions to activate the account for a facility that has previously applied with the ACR for Ultrasound
- Access the online accreditation system

Testing and QC Forms

Facilities that have applied for the Ultrasound Accreditation Program will submit the following documents with their image submission for review.

- Ultrasound Quality Assurance Questionnaire
- Testing Instructions
- Evaluation Attributes
- QC Worksheet
- Equipment Evaluation Summary

Continuing Education and Experience Forms

The following forms can be used to keep track of continuing education and continuing experience for the physicians and technologists.

- CME/Continuing Experience Record for Physicians
- CEU Record for Technologists

SUPPLEMENTAL #1
June 25, 2014
8:21 am

ACCREDITATION LOGIN

Log in to access the online accreditation system.

LOG IN

CONTACT US

Phone 800-770-0145
Fax 703-390-9835
Email ultrasound-accred@acr.org

ACR Ultrasound Accreditation Program
1891 Preston White Dr
Reston, VA 20191

FREE ACCREDITATION PRESENTATIONS

- June 18, 2014, Accreditation Update Webinar
- Breast MRI Accreditation Presentation
- CT Accreditation Presentation
- Nuclear Medicine/PET Accreditation Presentation

RELATED RESOURCES

- 2012 Ultrasound Coding User's Guide
- Accreditation Newsletters

RELATED PRODUCTS

CPI Adult Oncologic Body Imaging 2015

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CPI Ultrasonography Module 2011

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MARKET YOUR FACILITY

Is your facility already accredited? Our marketing resources are customized by modality.

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Mammography Accreditation

The Mammography Accreditation Program provides facilities with peer review and constructive feedback on staff qualifications, equipment, quality control, quality assurance, image quality and radiation dose. The 1992 Mammography Quality Standards Act (MQSA) requires that all mammography facilities in the United States be accredited.

Program Requirements

It is required that you carefully read the Mammography Accreditation Program Requirements for a summary of the accreditation process before applying for accreditation.

Mammography Accreditation Program Requirements
The ACR Mammography Accreditation Program: Ten Years of Experience Since MQSA
MQSA Certified Mammography Facilities and Accredited Mammography Units
New! Expedite the Accreditation Process with Electronic Image Submission!

Electronic image submission is now available for Mammography facilities! When completing the accreditation application, select "electronic" for the type of submission. This new option will reduce the turnaround time for accreditation image review. For more information, click the link below for User Instructions for Electronic Submission of Images.

User Instructions for Electronic Submission of Images

Frequently Asked Questions (FAQ)

Mammography Accreditation Program FAQ

Apply for Accreditation

An online accreditation system is available for the Mammography Accreditation Program. Existing facilities that have already applied with the ACR for this program and are not in an accreditation cycle on July 29, 2013, should access the system for the first time by following the steps in the account activation document below. Once those cycles are finished, and your facility is fully accredited, you may then access the online system.

Instructions to activate the account for a facility that has previously applied with the ACR for Mammography

Facilities applying for Mammography for the first time can follow the link to the online system and click the link to "register" for an account. Many of the Testing Forms that do not require signatures will be completed online, but the forms found on the website may still be used to gather information.

Access the online accreditation system
New Mammography Facility Information
Introductory Memorandum
VHA Mammography Facilities Letter

Submit applicable medical physicist form with new or relocated units:

MQSA Requirements for Mammography Equipment Checklist
Medical Physicist Equipment Evaluation and Annual Survey forms

Personnel, Testing and QC Forms

The ACR sends documents with testing materials to the facility after the initial application has been processed. The facility will usually submit the completed hard-copies at the same time they submit their images for review.

Access the forms

Sample Lay Report Letters

The sample lay reports were developed by a multidisciplinary panel.

View sample letters »

Reimbursement

Assistance for CMS Mammography Reimbursement Issues

Mammography Resources

Accredited Facility Search

Case in Point

ACCREDITATION LOGIN

Log in to access the online accreditation system.

LOGIN

CONTACT US

Phone 800-227-6440
Fax 703-648-9176
Email mamm-accred@acr.org

ACR Mammography Accreditation Program
1891 Preston White Dr
Reston, VA 20191

BREAST IMAGING CENTER OF EXCELLENCE

Learn how your facility can earn designation as a Breast Imaging Center of Excellence.

About BICOE

FREE ACCREDITATION PRESENTATIONS

June 18, 2014, Accreditation Update Webinar

Breast MRI Accreditation Presentation

CT Accreditation Presentation

Nuclear Medicine/PET Accreditation Presentation

SUPPLEMENTAL #1
June 25, 2014
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MAMMOGRAPHY RESOURCES

- Breast Imaging Resources
- FDA Mammography Home Page
- MQSA Policy Guidance Help System
- BIRADS Atlas
- Breast Imaging Center of Exellence
- Free participation for BICOE facilities in the National Mammography Database
- Assistance for CMS Mammography Reimbursement Issues
- Accreditation Newsletters

RELATED PRODUCTS

CME for Journal JACR14, 6a June

View Details

Breast MR with Guided Biopsy January 26-27, 2015

View Details

Highlights & Hot Topics: Breast Cancer

View Details

MARKET YOUR FACILITY

Is your facility already accredited? Our marketing resources are customized by modality.

Access Your Marketing Toolkit

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~~Supplemental B.II.A.1~~
June 25, 2014
8:21 am

Utilization of MRI's in the Service Area

	2010	2011	2012	# Units 2012	% Change	Miles
BMH Collierville	1,941	1,891	1,734	1	-10.66%	10.5
BMH Memphis	11,517	12,052	11,913	3	3.44%	6.0
Baptist Rehab - Germantown	1,702	1,622	1,596	1	-6.23%	4.1
Baptist Rehab - Briarcrest	370	585	650	1	75.68%	2.8
Campbell Clinic - Union	64	2,290	2,155	1	3267.19%	15.7
Campbell Clinic	8,081	6,502	6,321	1	-21.78%	4.9
Delta Medical Cntr	880	1,006	787	1	-10.57%	6.9
Diagnostic Imaging	4,540	6,358	6,538	1	44.01%	2.5
LeBonheur	3,856	4,663	5,357	3	38.93%	16.6
Methodist Germantown	8,313	7,698	6,557	2	-21.12%	3.7
Methodist North	3,536	4,073	4,139	1	17.05%	14.9
Methodist South	6,359	6,058	6,092	2	-4.20%	13.7
Methodist University	9,136	9,677	9,803	3	7.30%	15.8
MSK Covington Pike	3,420	3,096	3,140	1	-8.19%	29.0
MSK Briarcrest	4,043	4,508	4,489	1	11.03%	32.1
Neurology Clinic	3,370	3,168	3,160	1	-6.23%	29.2
Outpatient Diagnostic Memph	2,389	2,207	2,214	1	-7.33%	27.5
Park Ave. Diagnostic	3,857	3,080	2,681	2	-30.49%	24.0
Regional One	3,733	3,927	4,491	1	20.31%	16.9
Semmes Murphey Clinic	7,327	7,300	6,490	2	-11.42%	25.6
St. Francis	6,159	5,482	5,393	3	-12.44%	25.6
St. Francis - Bartlett	3,030	3,257	3,642	2	20.20%	31.8
St. Jude	9,467	10,031	6,241	4	-34.08%	18.5
Wesley Neurology Clinic	1,393	1,398	1,309	1	-6.03%	29.2
West Clinic, P.C.	1,304	1,662	1,564	1	19.94%	25.4
Total	109,787	113,591	108,456	41	-1.21%	

CON Approved MRI Units Since 2012

	2012	CON Approved	Miles
LeBonheur Children's Hospital	3	1	16.8
BMH for Women	0	1	4.8
West TN Imaging *	1	0	2.9

** "Moving" existing unit*

Health Care Providers that Utilize MRI's (As of 6/28/2013)

County	Provider Type	Provider	Address	City	State	Zip	Phone Number
Rutherford	PO	Tennessee Orthopaedic Alliance Imaging	1800 Medical Center Parkway, Suite 100	Murfreesboro	TN	37129	615-278-1652
Rutherford	HOSP	TriStar Stonecrest Medical Center	200 Stonescrest Boulevard	Smyrna	TN	37167	615-768-2000
Sevier	HOSP	LeConte Medical Center	742 Middle Creek Road	Sevierville	TN	37862	865-446-8576
Shelby	HOSP	Baptist Memorial Hospital - Collierville	1500 West Poplar Avenue	Collierville	TN	38017	901-861-9000
Shelby	HOSP	Baptist Memorial Hospital - Memphis	6019 Walnut Grove Road	Memphis	TN	38120	901-227-4137
Shelby	HOSP	Baptist Rehabilitation - Germantown	2100 Exeter Road	Germantown	TN	38138	901-757-1350
Shelby	H-Imaging	Baptist Rehabilitation Germantown - Briarcrest MRI	6286 Briarcrest Avenue, Suite 120	Memphis	TN	38120	
Shelby	PO	Campbell Clinic - Union	1211 Union Avenue	Memphis	TN	38120	901-522-7700
Shelby	PO	Campbell Clinic Inc	1400 South Germantown Road	Germantown	TN	38138	901-759-3100
Shelby	HOSP	Delta Medical Center	3000 Getwell Road	Memphis	TN	38118	901-369-8100
Shelby	RPO	Diagnostic Imaging PC - Memphis	6401 Poplar Avenue, Suite 100	Memphis	TN	38119	901-387-2340
Shelby	HOSP	LeBonheur Children's Medical Center	50 North Dunlap Street	Memphis	TN	38103	901-572-3000
Shelby	H-Imaging	Methodist Germantown Diagnostic Center	1377 South Germantown Road	Germantown	TN	38138	
Shelby	HOSP	Methodist Healthcare-Germantown Hospital	7691 Poplar Avenue	Germantown	TN	38138	901-516-6967
Shelby	HOSP	Methodist Healthcare-North Hospital	3960 New Covington Pike	Memphis	TN	38128	901-516-5200
Shelby	HOSP	Methodist Healthcare-South Hospital	1300 Wesley Drive	Memphis	TN	38116	901-516-3080
Shelby	HOSP	Methodist Healthcare-University Hospital	1265 Union Avenue	Memphis	TN	38104	901-516-2600
Shelby	H-Imaging	Methodist Midtown Diagnostic Center	1801 Union Avenue	Memphis	TN	38114	
Shelby	PO	MSK Group PC - New Covington Pike	3980 New Covington Pike, Suite 204	Memphis	TN	38128	901-260-7135
Shelby	PO	MSK Group, PC - Briarcrest	6286 BriarCrest Avenue, Suite 120	Memphis	TN	38120	901-261-2550
Shelby	PO	Neurology Clinic, PC	8000 Centerview Parkway, Suite 300	Cordova	TN	38018	901-255-7155
Shelby	ODC	Outpatient Diagnostic Center of Memphis	5130 Stage Road; P. O. Box 281206	Memphis	TN	38134	901-385-2636

Health Care Providers that Utilize MRI's (As of 6/28/2013)

County	Provider Type	Provider	Address	City	State	Zip	Phone Number
Shelby	H-Imaging	Park Avenue Diagnostic Center	5190 Park Avenue	Memphis	TN	38119	901-767-1015
Shelby	HOSP	Regional Medical Center at Memphis (The Med)	877 Jefferson Avenue	Memphis	TN	38103	901-545-7100
Shelby	PO	Semmes Murphey Clinic (Humphreys Blvd)	6325 Humphreys Blvd.	Memphis	TN	38120	901-522-7700
Shelby	HOSP	St. Francis Hospital	5959 Park Avenue	Memphis	TN	38119-5200	901-765-1807
Shelby	HOSP	St. Francis Hospital - Bartlett	2986 Kate Bond Road	Bartlett	TN	38134	901-820-7050
Shelby	HOSP	St. Jude Children's Research Hospital	262 Danny Thomas Place	Memphis	TN	38105-2794	901-595-3300
Shelby	PO	Wesley Neurology Clinic, P.C.	8000 Centerview Parkway, Suite 101	Cordova	TN	38018	901-753-4093
Shelby	ASTC/ODC	West Clinic, P.C., The	100 North Humphreys Blvd.	Memphis	TN	38120	901-683-0055
Smith	HOSP	Riverview Regional Medical Center	158 Hospital Drive	Carthage	TN	37030-1017	615-735-5164
Sullivan	PO	Appalachian Orthopaedic Associates, PC	1 Medical Park Blvd., Suite 300E	Bristol	TN	37620	423-844-6450
Sullivan	HOSP	Bristol Regional Medical Center	1 Medical Park Boulevard	Bristol	TN	37620	423-844-4200
Sullivan	ODC	Holston Valley Imaging Center, LLC	103 West Stone Drive	Kingsport	TN	37660	423-224-4050
Sullivan	HOSP	Holston Valley Medical Center	130 West Ravine Road	Kingsport	TN	37662	423-224-4000
Sullivan	HOSP	Indian Path Medical Center	2000 Brookside Drive	Kingsport	TN	37660	423-857-7100
Sullivan	ODC	Meadowview Outpatient Diagnostic Center	2033 Meadowview Lane, Suite 100	Kingsport	TN	37660	423-857-2800
Sullivan	H-Imaging	Sapling Grove Imaging, LLC (Wellmont)	240 Medical Park Blvd., Suite 1800	Bristol	TN	37620	423-844-4200
Sullivan	ODC	Sapling Grove Outpatient Diagnostic Center	240 Medical Park Blvd., Suite 1100	Bristol	TN	37620	423-990-2440
Sullivan	HODC	Volunteer Parkway Imaging Center	1230 Volunteer Parkway	Bristol	TN		
Sumner	H-Imaging	Diagnostic Center at Sumner Station	255 Big Station Camp Blvd.	Gallatin	TN	37066	615-328-3350
Sumner	HODC	Outpatient Imaging Center at Hendersonville Medical Center	1160 Forest Retreat Road	Hendersonville	TN	37075	615-338-2000
Sumner	H-Imaging	Portland Diagnostic Center	105 Red Bud Drive	Portland	TN	37148-4918	615-325-1229
Sumner	PO	Southern Sports Medicine Institute, PLLC	570 Hartsville Pike, PO Box 1686	Gallatin	TN	37066	615-452-3320
Sumner	HOSP	Sumner Regional Medical Center	555 Hartsville Pike	Gallatin	TN	37066-1558	615-452-4210
Sumner	HOSP	TriStar Hendersonville Medical Center	355 New Shackle Island Road	Hendersonville	TN	37075	615-338-1400

FY2013 PATIENT ORIGIN FOR OUTPATIENT IMAGING MODALITIES

IMAGING MODALITY	SHELBY COUNTY				All Other Areas	Grand Total
	Primary Service Area	SSA East/ Southeast	Other Shelby County	TOTAL SHELBY COUNTY		
MRI	69%	8%	18%	96%	4%	100%
CT Scan	60%	8%	22%	90%	10%	100%
Diagnostic Radiology	59%	8%	22%	89%	11%	100%
Mammography	81%	9%	9%	99%	1%	100%
Medplex Outpat Radiology	55%	8%	27%	90%	10%	100%
Nuclear Medicine	76%	7%	14%	97%	3%	100%
Ultrasound	77%	8%	13%	98%	2%	100%
Grand Total	61%	8%	22%	92%	8%	100%

Zip Codes Include:	PSA	SSA East/SE	Other Shelby
	38103	38115	37501
	38104	38125	37544
	38105	38141	38002
	38106	38017	38004
	38107	38119	38014
	38108	38138	38027
	38109	38139	38029
	38111	38016	38053
	38112	38018	38054
	38114	38028	38055
	38116	38117	38083
	38118	38120	38088
	38122		38101
	38124		38110
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	38127		38130
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June 25, 2014
8:21 am

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SUPPLEMENTAL #1

Supplemental MRI PDC

June 25, 2014

8:21 am

REGIONAL ONE HEALTH IMAGING
MRI REVENUE
PROJECTED DATA CHART

		Year 1	Year 2
A.	Utilization/ Occurpancy	2,363	2,611
B.	Revenue from Services to Patients		
1.	Inpatient Services		
2.	Outpatient Services	$ 4,243,176	$ 4,684,744
3.	Emergency Services		
4.	Other Operating Revenue (Specifiy)		
	Gross Operating Revenue	$ 4,243,176	$ 4,684,744
C.	Deductions from Operating Revenue		
1.	Contractural Adjustments	$ (2,686,036)	$ (2,965,560)
2.	Provision for Charity Care	$ (72,028)	$ (79,524)
3.	Provision for Bad Debt	$ (44,553)	$ (49,190)
	Total Deductions	$ (2,802,618)	$ (3,094,273)
	NET OPERATING REVENUE	$ 1,440,558	$ 1,590,471

YEAR 2 ASSUMPTIONS:

Utilization Increase %		10.5%
Gross Charge Rates Pricing		0.0%
Average Gross Patient Revenue Per Patient	$ 1,794.15	$ 1,794.15
Average Net Revenue Per Patient	$ 609.12	$ 609.12
Contractual Adjustments as a Percent of Gross	65.0%	65.0%
Provision for Charity Care as a % of Net Revenue	5.0%	5.0%
Provision for Bad Debt as a % of Net Revenue	3.0%	3.0%

SUPPLEMENTAL #1

June 25, 2014
8:21 am

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 09/2014.

Assuming the CON approval becomes the final agency action on that date; indicate the number of day **from the above agency decision date** to each phase of the completion forecast.

Phase	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	15	09/25/14
2. Construction documents approved, TDOH	60	11/27/14
3. Construction contract signed	14	12/18/14
4. Building permit secured	1	12/19/14
5. Site preparation completed	N/A	
6. Building construction commenced	21	09/09/15
7. Construction 40% complete	90	04/09/15
8. Construction 80% complete	90	07/09/15
9. Construction 100% complete (app., occupancy)	60	09/09/15
10. *Issuance of license	90	12/09/15
11. *Initiation of service	90	03/09/16
12. Final Architectural Certification of Payment	60	05/11/16
13. Final Project Report Form (HF0055)	90	08/19/16

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

SUPPLEMENTAL #1

June 25, 2014
8:21 am

The Commercial Appeal
Affidavit of Publication

STATE OF TENNESSEE
COUNTY OF SHELBY

Personally appeared before me, Patrick Maddox, a Notary Public, Helen Curl, of MEMPHIS PUBLISHING COMPANY, a corporation, publishers of The Commercial Appeal, morning and Sunday paper, published in Memphis, Tennessee, who makes oath in due form of law, that she is Legal Clerk of the said Memphis Publishing Company, and that the accompanying and hereto attached notice was published in the following editions of The Commercial Appeal to-wit:

June 9, 2014

Helen Curl

Subscribed and sworn to before me this 11th day of June, 2014.

_____ Notary Public

My commission expires February 15, 2016

PATRICK MADDOX
STATE OF TENNESSEE NOTARY PUBLIC
SHELBY COUNTY
My Commission Expires 02/15/2016

SUPPLEMENTAL #1
June 25, 2014
8:21 am

MIKE GROLL / ASSOCIATED PRESS

t his familiar No. 88 was in d victory of the season.

nd made a 180-degree spin, orcing him to back into his all for more repairs. He eeded two tires, had right-ront damage and dropped 29th on the restart.

Busch posted his first op 10 since his win at Mar-nsville nine races ago. le salvaged a rough day or his team that saw fel-ow Stewart-Haas Racing rivers Tony Stewart and evin Harvick drop from ontention with various is-ues. Stewart held the lead nd was in great position ite to win until he was usted for speeding on pit oad and was dropped to st. Harvick was running econd when he had tire rouble.

Stewart finished 13th, arvick 14th, and SHR's anica Patrick was 37th fter she smacked the wall ith 22 laps left.

reporting requirements | if you purchase a property

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center, including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $5,800,000.00, including filing fee.

The anticipated date of filing the application is: June 13, 2014.

The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 120, Nashville, TN 37215, 615/370-3380.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. 68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

RANKSHAFT By Tom Batiuk & Chuck Ayers

ORN LOSER By Art and Chip Sansom

SUPPLEMENTAL-#2
-Original-

Regional One Health Imaging

CN1406-024

SUPPLEMENTAL #2
June 30, 2014
9:30 am

ANDERSON & BAKER

An Association of Attorneys

2021 RICHARD JONES ROAD, SUITE 120
NASHVILLE, TENNESSEE 37215-2874

ROBERT A. ANDERSON
Direct: 615-383-3332
Facsimile: 615-383-3480

E. GRAHAM BAKER, JR.
Direct: 615-370-3380
Facsimile: 615-221-0080

June 27, 2014

Jeff Grimm
Health Services Examiner
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Supplemental Information: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Jeff:

Enclosed are three (3) copies of responses to your second supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,

E. Graham Baker, Jr.
/np

Enclosures as noted

SUPPLEMENTAL #2
June 30, 2014
9:30 am

AFFIDAVIT

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Regional One Health Imaging, LLC (CN1406-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 27th day of June, 2014; witness my hand at office in the County of Davidson, State of Tennessee.

NADEAN E. POTEET STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY

Nadean E. Poteet
NOTARY PUBLIC
My Commission expires July 3, 2017

1. Section B, Project Description, Item 1

The letter dated June 11, 2014 from Mr. Wagers, Jr. was noted in the attachments to the application and in the attachment to your 6/25/14 supplemental response. To the question regarding the applicant's potential responsibility for repayment (and the general terms of same) you have replied that the owner will make a cash equity contribution to the project. Please provide a brief description of this arrangement such that the applicant's financial obligations for repayment from operating revenues of the proposed ODC are understood.

Response: By definition, a cash equity contribution is just that: a contribution. Cash equity contributions are not loans, and they do not have to be repaid. Therefore, there are no financial obligations for "repayment" by the Applicant to its parent owner.

2. Section B, Project Description, Item II.A.

The response is noted. With respect to the requested comparison of the applicant's estimated cost to renovate space for the proposed ODC, please provide replacement pages to the application (e.g. pages 14 and 35) using the table below that was provided in the supplemental.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$1,235,500	$159.69
CN1103-008	795	$127,500	$160.38
CN1304-014	847	$$150,000	$177.10
CN1304-013	2,080	$520,000	$250.00
CN1203-014	5,320	$1,605,150	$301.72

The response citing a combined (landlord + tenant) total estimated cost of $164.29 per GSF is noted. It appears that the estimated combined cost to renovate the space for the proposed ODC amounts to approximately $164.29 x 4,587GSF = $753,598. Of this amount, the landlord and applicant's share are as follows:

Landlord = $504,570 (per $110.00/SF Improvement Allowance noted in lease)
Applicant = $249,000 (as noted in Project Cost Chart)
Total $753,570

As a result, it appears that the applicant's share amounts to approximately 33% of the total estimated renovation cost of the proposed ODC. Is this an accurate assessment of the arrangement between the applicant and the parties? If so, what documentation is provided in the sublease that confirms this arrangement, including the applicant's participation in the planning & conduct/oversight of the leasehold improvements for the proposed ODC?

Response: Yes, the Improvement Allowance information previously reported by the Applicant and noted above is correct. The original lease provides for Improvement Allowances of up to $110.00/SF for new tenants (page 2 of *Attachment A.6*), and the sublease states that terms and conditions of the sublease shall be in accordance with the terms and conditions "...as are contained in the Lease...." (*Attachment A.6.1*). The Applicant is legally exercising that lease provision. Tenants always participate in the planning/conduct/oversight of leasehold improvements, and this instance is no exception.

Also, please see replacement pages 14, 15, and 35 with the above chart.

3. Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.)

The responses requested for the MRI Specific Criteria in the application (pages 16 -28 of the attachment) are noted.

For Item 1(a) on page 20: It appears that projected YR3 MRI utilization will exceed the 2,880 standard based on the response provided for question 9 of the ODC specific criteria. That response identified MRI utilization four (4) years into the future as follows: YR 1 = 2,363; YR 2=2,611; YR3= 2,885 and YR4=3,188.

Please confirm by revising the response on page 20 of the MRI specific criteria to reflect utilization for YR3 & YR4 of the project.

For Item 4 on page 22: clarification of the original response provided in the application was requested for Item 4 of the MRI specific criteria, "Need Standard for Non-Specialty MRI Units" (the response on page 22 only identified the hours of operation of the proposed ODC). The response to this item of the MRI specific criteria requires that the applicant address the need for an additional MRI unit in Shelby County based on a combined average utilization of existing MRI providers at 2,880 procedures per unit for the most recent 12- month period using information from the HSDA Medical Equipment Registry.

It appears that the applicant provided the utilization for the ODC specific criteria in lieu of the MRI specific criteria. Please revise Item 4 of the MRI specific criteria & provide a replacement page R-22 with the information requested.

Response: Please see replacement pages 20 and 22 of the MRI Specific Criteria.

4. Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)

Item 2: The response is noted. Please note that the MRI utilization in 2012 for St Jude in the table attached as Supplemental B.II.A.1 has been updated from 6,241 procedures to 8,737 procedures. The resulting total combined MRI utilization of Shelby County providers is 110,952. *Note this applies to the previous clarification requested for Section C, Need, Item 5. The table below was provided as a reference:*

MRI Provider Utilization in Shelby County, 2010- 2013

Year	# MRI units	Total MRI Procedures	Average per unit	As a % of 2880 MRI Standard
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

- *Note: HSDA has not received reports from St Jude and Delta*

Response: The 2012 data above shows that existing MRI units are operating at approximately 99% of the 2,880 standard. However, two units (LeBonheur and St. Jude) are specialty units, and if those units are taken out of consideration, the percentage of MRI Standard would increase to 2,892 procedures per unit (Note: LeBonheur's units average only 1,786 per unit, and St. Jude's units average only 2,185 per unit. Therefore, deleting those two amounts and 2 units would equal 106,981 procedures and 37 MRIs, resulting in an average utilization of 2,892 per unit).

5. Section C, Need, Item 3 and Item 4 (Service Area)

Item 3: The attachment contains zip codes of Shelby County residents of the hospital's MRI service in 2013. It appears that these residents accounted for 96% of the hospital's MRI utilization during the period. Based on the hospital's "outpatient MRI draw" discussed on pages 8 and 9 of the 6/25/14 supplemental response, it appears that Shelby County residents may be expected to comprise 90% or more of the caseload of the proposed ODC. Is that a reasonable assessment? Please confirm.

Item 4: the population & other demographics for the ODC's proposed service area of Shelby County are noted. Please disregard the column included in the table for Tipton County as it is not relevant to your project. This will impact the column labeled Service Area. Please delete both of these columns and provide a revised table. I apologize for any inconvenience my error may have created.

Response: Yes. The Applicant anticipates that Shelby County residents will comprise approximately 90% of the imaging caseload of the proposed ODC.

Shelby County is the Service Area. Another chart, deleting Tipton County, is provided below:

Variable	Shelby	Svc. Area	TN Total
65 + Pop. 2014	108,570	108,570	981,984
65+ Pop. 2018	124,946	124,946	1,102,413
Age 65+, % Change	15.1%	15.1%	12.3%
Age 65+, % Total	13%	13%	16%
Total Pop. 2014	943,812	943,812	6,588,698
Total Pop. 2018	954,012	954,012	6,833,509
Total Pop. % Change	1.1%	1.1%	3.7%
TennCare Enrollees	229,280	229,280	1,207,604
TennCare Enrollees as a % of Total	24.3%	24.3%	18.3%
Median Age	34.0	34.0	38.0
Median Household Income	44,705	44,705	43,314
Population % Below Poverty Level	19.7%	19.7%	16.5%

6. Section C, Need, Item 6

The explanation of the differences in the MRI utilization reported to the HSDA Medical Equipment Registry by the hospital is noted. The applicant confirmed that the information provided on page 32 of the application is the hospital's correct MRI utilization from 2010 - 2013. The revised table below identifies the discrepancies noted in red font. Based on your response, a hospital representative should provide a corrected written report to Alecia Craighead, Stat III, HSDA. Please provide a copy of same with your response to this item. As a result of your clarification, please also revise the utilization for CY2011 on page 31 of the application.

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

The requested table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix in Year 1 of the project is noted. It appears that the 1,865 hospital MRI procedures in 2013 applies (sic) to outpatient utilization as noted in the table on page 19 of your 6/25/14 supplemental response. Please confirm.

Response: It is important to note that MRI utilization data supplied by hospitals to the HSDA Equipment Registry is based on Calendar Years, and data supplied to JARs are Fiscal Years. Therefore, the numbers will never be the same.

The Calendar Year MRI procedure numbers reported to the HSDA (Equipment Registry) in the above chart are correct. But those are Calendar Year numbers. As such, there are no discrepancies to address.

The issue is what was reported in the JARs, as compared to what actually happened during those fiscal years. The Applicant has already stated that the JAR information for 2012 was incorrect (correct number is 4,491, as reported in the application). According to the Division of Health Statistics, corrections to prior years' JARs are not a priority. Actual fiscal year MRI procedures are correctly reported in the last column of the above chart, and these numbers will not match the calendar year numbers reported to the HSDA Equipment Registry.

Please see replacement page 31 of the application.

The Applicant confirms that the referenced MRI payor mix table applies to 2013 outpatient utilization.

7. Section C. Economic Feasibility, Item 1 (Project Costs Chart)

The response is noted. The comparison of equipment lease cost to purchase price (fair market value) was noted on pages 11, 13, 20 & Attachment B.II.E.1 of the application. The lease cost and fair market value of the property were identified in the comments on pages 11 and 13 of the application. However, written documentation of the $2,115,949 fair market value of the existing 5-story building was not included in the application. Please provide this from the MOB property owner or other appropriate party such as a property appraiser.

Response: Please note pp. 6, 11, 13 and 36 of the CON Application. The FMV of the space being leased by the ODC is $1,141,532.50 (not $2,115,949 as noted above). Please see *Supplemental C.EF.1.a*, which is a letter stating the FMV of the leased space in the MOB.

Just in case the reviewer was concerned about the fair market value of the leased equipment, leased equipment has a fair market value of $2,115,949, which is the total purchase price (which is FMV) of the leased equipment (see both *Attachment B.II.E.3* and *Supplemental B.II.E.3*). Courts have long held that willing buyer/willing seller purchase prices constitute fair market value.

8. Section C. Economic Feasibility, Item 4 (Projected Data Chart)

The table on page 27 of the 6/25/14 supplemental response also appears to confirm that the unit of measure for utilization in the Projected Data Chart should be total outpatient procedures in lieu of the patient days reflected on page 41 of the application.

The applicant identifies charity care for 631 unduplicated patients in Year 1 and 756 patients in Year 2. Using these amounts and the estimated gross charge of $555 per patient (page 43 of application), it appears that the contractual amounts for charity patients may be understated in the Projected Data Chart. For example, the amount for Year 1 may be $350,205 in lieu of $131,707 identified in item C.2 of the chart.

Please review these two items for revision and provide a replacement page R-41 with the corrected amounts, as appropriate.

Response: Please see a replacement page 41 of the application with the correct terminology.

The financing model we utilized calculated charity care as 5% of Net Contracted Revenue, not as a percentage of Gross Revenue.

Standards and Criteria

1. Utilization Standards for non-Specialty MRI Units.
   a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

Response: Projected 4 year MRI utilization is: 2,363; 2,611; 2,885; and 3,188 (Yrs 1 – 4).

   b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Response: Not applicable.

   c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

Response: Not applicable.

   d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

Response: Not applicable.

   e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with another medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

Response: Not applicable.

procedures per year.

Response: The 2012 MRI utilization data shows that existing MRI units are operating at approximately 99% of the 2,880 standard. However, two units (LeBonheur and St. Jude) are specialty units, and if those units are taken out of consideration, the percentage of MRI Standard would increase to 2,892 procedures per unit.

5. Need Standards for Specialty **MRI Units.**

a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to **acquire a dedicated** fixed or **mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures** (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

1. It has an **existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided** by mammography, **ultrasound, and MM unit equipment, and** that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;

2. Its existing **mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;**

3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is **based in the proposed service area.**

4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, **and primary care providers.**

Response: Not applicable.

We anticipate having only 6 staff initially, including 1 administrator, 2 reception/intake personnel, and 4 equipment technicians. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

From a historical standpoint, the Hospital traces its roots to the City of Memphis Hospital, built in 1936, consisting primarily of open wards for inpatient beds. Through the years, additions have been made to the campus as more demands were placed on the hospital and more services were offered. That original building, renamed the John Gaston Building, no longer exists. The City of Memphis transferred ownership of the hospital to Shelby County, and in around 1983/84 the hospital started doing business as Regional Medical Center at Memphis/The MED. Today, Regional One Health is licensed for 631 hospital beds plus 20 SNF beds, and serves as a regional medical center for patients not only from Shelby County, but from an additional 30 Tennessee Counties and 10 other states.

From a historical point of view, the Applicant has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services at the facility. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of Regional One Health. This CON project is the next phase of planned improvements to the campus and in outpatient settings in an effort to further improve both the quality of services being provided to our patients and our physical plant. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors.

See *Attachment B.II.A.1* for a chart showing MRI utilization in Shelby County, 2010 – 2012. *Attachment B.II.A.2* shows CT utilization, and *Attachment B.II.A.3* shows the top 10 anticipated CPT codes for both MRI and CT at our ODC.

Please note that the 2012 JAR reported incorrect information on MRI utilization at the Hospital. The correct number of MRI procedures that should have been reported is 4,491. That correct number was given to the HSDA for equipment utilization, and that number is being utilized within this application.

This project is financially feasible, based on cost information gathered by the HSDA for recent renovation projects, as seen in the next chart:

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$1,235,500	$159.69
CN1103-008	795	$127,500	$160.38
CN1304-014	847	$$150,000	$177.10
CN1304-013	2,080	$520,000	$250.00
CN1203-014	5,320	$1,605,150	$301.72

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response: Not applicable, as no beds are involved in this project.

ECONOMIC FEASIBILITY

1. **Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.**

-- **All projects should have a project cost of at least $3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)**

-- **The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.**

-- **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

-- **For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.**

Response: The Project Costs Chart is completed. Approximately 4,587 GSF will be renovated, and adding the common area factor, a total of 5,275 GSF will be leased. The Applicant's renovation costs of $249,000, divided by the GSF of the ODC (4,587) equals approximately $54.29 per GSF.

This project is financially feasible, based on cost information gathered by the HSDA for recent renovation projects, as seen in the next chart:

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$1,235,500	$159.69
CN1103-008	795	$127,500	$160.38
CN1304-014	847	$$150,000	$177.10
CN1304-013	2,080	$520,000	$250.00
CN1203-014	5,320	$1,605,150	$301.72

Please see *Attachment C.EF.1*, which is a letter from the Project Manager for this project.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

June 30, 2014
9:30 am

Response: The Hospital currently operates an MRI on its campus on Jefferson Street. As reported, the Hospital also has the third most active Trauma Center in the United States. As a trauma center, it is understandable that hospital resources, especially diagnostic services, are utilized to the maximum. The current Fiscal Year MRI utilization has increased as follows:

2011 4,412 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Another MRI is needed to offset this high utilization. The issue is where to locate that second MRI.

Anticipated 4 year MRI utilization is 2,363; 2,611; 2,885; and 3,188 (Yrs 1 – 4).

Following is a summary of the process followed in arriving at the need for another MRI, and the fact that it is most advantageous to place that additional unit in an outpatient setting:

ODC AT KIRBY BUILDING – SUMMARY

Overall Program Description:

- Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

Types of Diagnostic Imaging Tests to be offered by the ODC include:

- Magnetic Resonance Imaging (MRI)
- Computed Tomography (CT)
- Bone Densitometry
- Ultrasound
- Digital Mammography
- Flouroscopy
- X-ray

June 27, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Fair Market Value (FMV) of Leased Space

Mrs. Hill,

We understand that Shelby County Health Care Corporation, under the terms of its lease, intends to sublease 5,275 gross square feet of occupied space to Regional One Imaging, LLC.

The purpose of this letter is to confirm the estimated FMV of this space is $1,151,532.50.

Please contact me if you have any questions.

Sincerely,

Bret L. Perisho

Executive Vice President
Regional One RH MOB 1 SPE, LLC
6555 Quince Road
Memphis, TN 38114

SUPPLEMENTAL #2

June 30, 2014
9:30 am

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this project. The fiscal year begins in July (month).

		Yr-1	Yr-2
A.	Utilization/Occupancy (Diagnostic Procedures)	12,579	15,095
B.	Revenue from Services to Patients		
	1. Inpatient Services		
	2. Outpatient Services	7,758,909	9,310,691
	3. Emergency Services		
	4. Other Operating Revenue (Specify		
	Gross Operating Revenue	**7,758,909**	**9,310,691**
C.	Deductions from Operating Revenue		
	1. Contractual Adjustments	4,911,583	5,893,900
	2. Provision for Charity Care	131,707	158,049
	3. Provision for Bad Debt	81,469	97,762
	Total Deductions	**5,124,759**	**6,149,711**
	NET OPERATING REVENUE	**2,634,150**	**3,160,979**
D.	Operating Expenses		
	1. Salaries and Wages	571,200	647,170
	2. Physician's Salaries and Wages (Contracted)	474,147	568,976
	3. Supplies	107,438	132,794
	4 . Taxes	60,000	60,000
	5 . Depreciation	100,703	100,703
	6. Rent	144,000	144,000
	7. Interest, other than Capital	104	104
	8. Management Fees:		
	a. Fees to Affiliates		
	b. Fees to Non-Affiliates	111,366	126,439
	9. Other Expenses (Specify) Attached	851,889	1335,720
	Total Operating Expenses	**2,420,848**	**3,115,906**
E.	Other Revenue (Expenses)-Net (Specify) Attached		
	NET OPERATING INCOME (LOSS)	**213,302**	**45,074**
F.	Capital Expenditures		
	1. Retirement of Principal		
	2. Interest (on Letter of Credit)		
	Total Capital Expenditure		
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	**213,302**	**45,074**

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

June 26, 2014

Mr. Graham Baker, Attorney
Anderson & Baker
2021 Richard Jones Road, Suite 120
Nashville, TN 37215

RE: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Mr. Baker,

This will acknowledge our June 25, 2014 receipt of your supplemental response regarding your Certificate of Need application for the establishment of an Outpatient Diagnostic Center (ODC), the acquisition of magnetic resonance imaging (MRI) equipment and the initiation of MRI services in approximately 5,275 gross square feet of leased space on the first floor of an existing office building at 6555 Quince Road in Memphis, TN.
Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 1:00 PM, June 30, 2014. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

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1. **Section B, Project Description, Item 1**

   The letter dated June 11, 2014 from Mr. Wagers, Jr. was noted in the attachments to the application and in the attachment to your 6/25/14 supplemental response. To the question regarding the applicant's potential responsibility for repayment (and the general terms of same) you have replied that the owner will make a cash equity contribution to the project. Please provide a brief description of this arrangement such that the applicant's financial obligations for repayment from operating revenues of the proposed ODC are understood.

2. **Section B, Project Description, Item II.A.**

   The response is noted. With respect to the requested comparison of the applicant's estimated cost to renovate space for the proposed ODC, please provide replacement pages to the application (e.g. pages 14 and 35) using the table below that was provided in the supplemental.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	$1,235,500	$159.69
CN1103-008	795	$127,500	$160.38
CN1304-014	847	$$150,000	$177.10
CN1304-013	2,080	$520,000	$250.00
CN1203-014	5,320	$1,605,150	$301.72

The response citing a combined (landlord + tenant) total estimated cost of $164.29 per GSF is noted. It appears that the estimated combined cost to renovate the space for the proposed ODC amounts to approximately $164.29 x 4,587GSF = $753,598. Of this amount, the landlord and applicant's share are as follows:

Landlord = $504,570 (per $110.00/SF Improvement Allowance noted in lease)
Applicant = $249,000 (as noted in Project Cost Chart)
Total $753,570

As a result, it appears that the applicant's share amounts to approximately 33% of the total estimated renovation cost of the proposed ODC. Is this an accurate assessment of the arrangement between the applicant and the parties? If so, what documentation is provided in the sublease that confirms this arrangement, including the applicant's participation in the planning & conduct/oversight of the leasehold improvements for the proposed ODC?

3. **Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.)**

The responses requested for the MRI Specific Criteria in the application (pages 16 -28 of the attachment) are noted.

For Item 1(a) on page 20: it appears that projected YR3 MRI utilization will exceed the 2,880 standard based on the response provided for question 9 of the ODC specific criteria. That response identified MRI utilization four (4) years into the future as follows: YR 1 = 2,363; YR 2=2,611; YR3= 2,885 and YR4=3,188.
Please confirm by revising the response on page 20 of the MRI specific criteria to reflect utilization for YR3 & YR4 of the project.

For Item 4 on page 22: clarification of the original response provided in the application was requested for Item 4 of the MRI specific criteria, "Need Standard for Non-Specialty MRI Units" (the response on page 22 only identified the hours of operation of the proposed ODC). The response to this item of the MRI specific criteria requires that the applicant address the need for an additional MRI unit in Shelby County based on a combined average utilization of existing MRI providers at 2,880 procedures per unit for the most recent 12- month period using information from the HSDA Medical Equipment Registry.

It appears that the applicant provided the utilization for the ODC specific criteria in lieu of the MRI specific criteria. Please revise Item 4 of the MRI specific criteria & provide a replacement page R-22 with the information requested.

4. Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)

Item 2: the response is noted. Please note that the MRI utilization in 2012 for St Jude in the table attached as Supplemental B.II.A.1 has been updated from 6,241 procedures to 8,737 procedures. The resulting total combined MRI utilization of Shelby County providers is 110,952. *Note this applies to the previous clarification requested for Section C, Need, Item 5. The table below was provided as a reference:*

Year	# MRI units	Total MRI Procedures	Average per unit	As a % of 2880 MRI Standard
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

MRI Provider Utilization in Shelby County, 2010- 2013

- *Note: HSDA has not received reports from St Jude and Delta*

5. Section C, Need, Item 3 and Item 4 (Service Area)

Item 3: The attachment contains zip codes of Shelby County residents of the hospital's MRI service in 2013. It appears that these residents accounted for 96% of the hospital's MRI utilization during the period. Based on the hospital's "outpatient MRI draw" discussed on pages 8 and 9 of the 6/25/14 supplemental response, it appears that Shelby County residents may be expected to comprise 90% or more of the caseload of the proposed ODC. Is that a reasonable assessment? Please confirm.

Item 4: the population & other demographics for the ODC's proposed service area of Shelby County are noted. Please disregard the column included in the table for Tipton County as it is not relevant to your project. This will impact the column labeled Service Area. Please delete both of these columns and provide a revised table. I apologize for any inconvenience my error may have created.

6. Section C, Need, Item 6

The explanation of the differences in the MRI utilization reported to the HSDA Medical Equipment Registry by the hospital is noted. The applicant confirmed that the information provided on page 32 of the application is the hospital's correct MRI utilization from 2010 - 2013. The revised table below identifies the discrepancies noted in red font. Based on your response, a hospital representative should provide a corrected written report to Alecia Craighead, Stat III , HSDA. Please provide a copy of same with your response to this item. As a result of your clarification, please also revise the utilization for CY2011 on page 31 of the application.

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

The requested table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix in Year 1 of the project is noted. It appears that the 1,865 hospital MRI procedures in 2013 applies to outpatient utilization as noted in the table on page 19 of your 6/25/14 supplemental response. Please confirm.

7.Section C. Economic Feasibility, Item 1 (Project Costs Chart)

The response is noted. The comparison of equipment lease cost to purchase price (fair market value) was noted on pages 11, 13, 20 & Attachment B.II.E.1 of the application. The lease cost and fair market value of the property were identified in the comments on pages 11 and 13 of the application. However, written documentation of the $2,115,949 fair market value of the existing 5-story building was not included in the application. Please provide this from the MOB property owner or other appropriate party such as a property appraiser.

8. Section C. Economic Feasibility, Item 4 (Projected Data Chart)

The table on page 27 of the 6/25/14 supplemental response also appears to confirm that the unit of measure for utilization in the Projected Data Chart should be total outpatient procedures in lieu of the patient days reflected on page 41 of the application.

The applicant identifies charity care for 631 unduplicated patients in Year 1 and 756 patients in Year 2. Using these amounts and the estimated gross charge of $555 per patient (page 43 of application), it appears that the contractual amounts for charity patients may be understated in the Projected Data Chart. For example, the amount for Year 1 may be $350,205 in lieu of $131,707 identified in item C.2 of the chart.

Please review these two items for revision and provide a replacement page R-41 with the corrected amounts, as appropriate.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." **For this application the sixtieth (60th) day after written notification is August 19, 2014. If this application is not deemed complete by this date, the application will be deemed void.** Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Re-submittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. ə 68-11-1607(d):

(1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.

(2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Jeff Grimm
HSD Examiner

Enclosure/PJG